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EXPANDING HOMEOWNERSHIP OPPORTUNITIES

HEARING

BEFORE THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

ON

INCREASING MINORITY HOMEOWNERSHIP, AND EXPANDING HOMEOWNERSHIP TO ALL WHO WISH TO ATTAIN IT

JUNE 12, 2003

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C O N T E N T S

THURSDAY, JUNE 12, 2003

EXPANDING HOMEOWNERSHIP OPPORTUNITIES

THURSDAY, JUNE 12, 2003

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m. in room SD–538 of the Dirksen Senate Office Building, Senator Richard C. Shelby (Chairman of the Committee) presiding.

OPENING COMMENTS OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order.

We have Congresswoman Katherine Harris from Florida here, who will introduce Secretary Martinez. I thought we would do this because she has something going on in the House, Mr. Secretary, if you do not mind, and then we will make our opening statements after Congresswoman Harris.

Representative Harris.

STATEMENT OF KATHERINE HARRIS A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Representative HARRIS. Thank you, Mr. Chairman. It is an honor to be here today, and especially to appear before the Committee to address the moral imperative of our great Nation.

Across America, families and individuals are confined to deplorable conditions in substandard public housing. In a Nation that enjoys a level of wealth and material comfort unprecedented in human history, this state of affairs is intolerable.

President Bush has articulated a bold new plan that attacks this problem by creating 5.5 million new minority homeowners by the end of the decade. Studies show that the average net worth of low-income persons, which is $900 when they rent, skyrockets to over $70,000 when they own their own home. The fulfillment of this vision will add $256 billion to the American economy. In fact, just last year, the economic activity associated with homeownership amounted to $80 billion.

I was honored to introduce a bill that helps implement the President's plan. I have sponsored H.R. 1276, the American Dream Downpayment Act, which is on its way to the House floor after passing the full Financial Services Committee this month.

I have repeatedly heard from housing advocates that a great number of low-income Americans could meet a monthly mortgage payment, but they cannot surmount the initial obstacle of that downpayment and closing costs. These circumstances have created a steep entry fee that we have the power to abolish. The American Dream Downpayment Act will help tens of thousands of low-income Americans attain the dignity, stability, and economic empowerment of homeownership.

But I have the opportunity this morning to recognize Congressman Mike Rogers from Illinois for his extraordinary leadership on the issue. He sponsored similar legislation in the House last year, obtaining $75 million in funding for this fiscal year, although the actual bill did not reach the floor. I also want to thank Senator Wayne Allard for his sponsorship of the companion bill in the Senate, Senate bill 811, as well as the House Financial Services Committee Chair Mike Oxley and Housing Subcommittee Chairman Bob Ney for their steadfast support of this legislation. Further, I wish to commend Congressman Artur Davis from Alabama for his passionate commitment to this issue. His bipartisan leadership reminds us all of what can be accomplished if we work together to make a difference.

Yet today, I have the distinct honor and privilege to introduce the very embodiment of this American dream. As a fellow Floridian, I can attest to the pride Mel Martinez has brought to our State due to his outstanding performance as President Bush's Secretary of Housing and Urban Development. Having confirmed his appointment, you well know that Secretary Martinez compiled an outstanding record as Chairman of the Government of Orange County from his election in 1998 until his selection in 2001 as the first Cuban American to serve in the President's Cabinet.

Many of you may not have heard the amazing story that underlies all of these achievements. Mel Martinez was born in Sagua la Grande, Cuba. As a teenager, he fled the tyranny of Castro's Cuba as a part of Operation Pedro Pan, a Catholic humanitarian effort that eventually brought 14,000 children safely to the United States.

Mel Martinez came to this country alone, knowing very little English. As a result of an unparalleled drive, perseverance, and vision, he soared upon the wings of his new-found freedom. Upon his graduation from the Florida State University College of Law, he became an eminent attorney, community activist, and leader in Orlando. As our Nation's top housing official, Secretary Martinez has reenergized HUD as a powerful force for the extension of quality affordable housing to every American.

He has restored public confidence by making ethics, accountability, and program effectiveness his top priorities. Moreover, he has forcefully and effectively implemented the Bush Administration's compassionate conservative agenda through initiatives that spur community development, increase minority homeownership, and galvanize our Nation's armies of compassion.

I wish to thank Secretary Martinez and his staff for their guidance and support during this legislative process. I wish I could stay for the duration, but we have a markup. And, again, Mr. Chairman, and the balance of the Senators on this Committee, thank you so very much for inviting me and for conducting this hearing.

Chairman SHELBY. Thank you, Representative Harris.

In March of this year, the Committee heard Secretary Martinez offer the Administration's budget proposal on housing for fiscal year 2004. An important part of this proposal is the Administration's goal of increasing minority homeownership by 5.5 million households by the end of the decade. I fully share this goal.

Homeownership is an important tool in lifting low-income and minority families out of poverty. Providing homeownership opportunities for low-income families not only provides them with an opportunity for wealth building, it also increases community pride and has a stabilizing effect on children.

Today, 68 percent of American families own their home. They have achieved a piece of the American dream. I will note that even more impressive is the fact that 74 percent of the people in my State of Alabama own their home. This is an amazing achievement considering that in 1940, my State, Mr. Secretary, my State of Alabama had a homeownership rate of 33.6 percent, less than half of today's. I am very proud of that.

Mr. Secretary, you might want to take a close look at what we have done there, not just what I have done but what others have done way before I came along.

Despite the incredible gains that have been made, homeownership still remains very much out of reach for many. Only 42 percent of families headed by persons 35 years or younger own their own home, while homeownership of persons 65 years or older is over 80 percent.

Homeownership rates also differ significantly by race and income. For white households, the national homeownership rate is 75 percent, while for African American households it is 47.7 percent. A greater gap is found across incomes. If a family's income is at or above the median, the rate of homeownership is 83.3 percent, Mr. Secretary, as you know. For families earning less than the median income, the rate of homeownership is 51.3 percent.

One of the many obstacles to achieving homeownership is coming up with the downpayment. A 1999 Census Bureau report finds that for almost a third of renter families that could not afford to purchase a home, their only obstacle was lacking the up-front cash necessary for a downpayment.

The President has proposed one solution to the obstacle, the "American Dream Downpayment," which authorizes $200 million in grant assistance to families wanting to own a home. Senator Allard, my colleague, has taken the leadership of introducing this proposal in the Senate.

Saving for a downpayment is not the only obstacle families face in achieving homeownership. Other families lack access to affordable credit or even lack an understanding about the mortgage and home buying process.

These are just a few of the issues, Mr. Secretary, I hope we will be able to cover today. I encourage our witnesses to offer their perspectives on how we, as a country, can expand the homeownership opportunities to all who wish to attain it.

Our first witness is Secretary Martinez. After we hear from Secretary Martinez, we will hear from several of the Administration's partners in expanding homeownership. This second panel includes Mr. Bobby Rayburn, First Vice President of the National Association of Home Builders; Ms. Cathy Whatley, President of the National Association of Realtors; Mr. Tom Jones, Managing Director for Habitat for Humanity's Washington DC office; and Ms. Terri Montague, President and Chief Operating Officer for the Enterprise Foundation."

Mr. Secretary, we welcome you again to the Committee. We look forward to your remarks. Your written statement will be made part of the record in its entirety.

Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Well, thank you very much, Mr. Chairman, and we are pleased to see Secretary Martinez here today, as always.

This is a very appropriate moment to talk about homeownership. June is Home Ownership Month. We are pleased that we have made progress over the last several years, and the work that continues is one that I think is very important.

This program the President proposed is a very useful one, a helpful one, but I do not think it alone will deal with the issue of affordability and homeownership. The average price of a home in the United States during the first quarter of 2003 increased 6.48 percent from the previous year, so we are seeing increased prices. In my State of Rhode Island, home prices have shot up 15 percent over last year. We are seeing, in fact, that of the many homes for sale around, only 216 are classified as affordable given the standard measure of affordability, and that is that a family making $47,000 could afford to buy that home.

Indeed, as a result of these market pressures, our homeownership numbers have fallen to 59.6 percent, much less than the national average. So there are many issues that have to be addressed. This is a useful approach, but not the exclusive and sole approach.

There are several areas which I would like to comment on that raise concerns with respect to the current proposal. One of the real problems is even if you have access to a downpayment, you have to have an affordable home to buy. And as I pointed out, in Rhode Island there are only 216 out of the thousands that are on the market. So, we need also to think about production.

The second point I would raise is that this is only one rung on the ladder of homeownership. It is an important rung, but if we do not have access to good, affordable public housing—and I notice Congresswoman Harris pointed out substandard public housing—that is a first-order responsibility. And if we do not do that, then I think we won't have the ability to put people in decent housing until they can afford to buy a home.

Section 8 vouchers, preserving existing affordable housing, stabilizing distressed neighborhoods—all of these must be addressed as well as providing downpayments for homeownership.

And, finally, I am concerned about the generality of the Administration's proposal. There is no formula for providing this downpayment assistance, and, in fact, I think under some present programs, like the HOME Program, States have the flexibility to use the money for downpayment assistance. So I wonder why we would embark on a new program when, in fact, the States have the authority already to do that, and they can use their judgment and their local perspective to make sure that the money is being spent well and wisely.

But anything that can be used to help people get in homes is commendable, and I hope working through the process we can address some of these concerns.

Again, I thank the Secretary for being here today.

Chairman SHELBY. Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. First off, Mr. Chairman, I would like to thank you for convening today's hearing. I think it is very timely considering that June is Home Ownership Month.

I believe that housing and, in particular, homeownership is one of the most important areas of our jurisdiction. All those stories like weapons of mass destruction in Iraq and monkeypox outbreaks in America might grab the headlines. Housing is actually the bigger story and, I might add, successful story. Sixty-eight percent of Americans own their own home. This is a record-high level. However, we have significant room for improvement. Although 75 percent of whites own their own home, only 48 percent of minorities live in an owned home. I strongly believe that this homeownership gap should be eliminated, and I want to commend both President Bush and Secretary Martinez for their efforts to do just that.

I am pleased to work with them to expand homeownership opportunities by introducing the American Dream Downpayment Act. This bill will dedicate $200 million to downpayment assistance through HUD's HOME Program. Because the downpayment is one of the biggest obstacles to homeownership, this bill will allow 40,000 families each year to become new homeowners. This program is structured with a great deal of flexibility to allow it to complement existing homeownership programs.

I would agree with my colleague from Rhode Island that we have to be concerned about the rising costs of homes, but this is not something that is the sole responsibility of the Federal Government. The local governments have a big stake in this, and the State government has a big stake in this. The nice thing about this particular piece of legislation is that it is not intrusive into those areas, but it is a supportive effort in order to help get more people into homeownership, particularly minorities.

I am hopeful that the Committee will be able to quickly report out the American Dream Downpayment Act. That would be one of the most fitting ways possible for us to mark National Home Ownership Month.

I also would like to welcome our witnesses today. They have all done a great deal of work on homeownership. I am eager to hear their comments about what else can be done.

I will conclude by welcoming Secretary Martinez back to the Banking Committee. I would just note an addendum at this point that I have received the Government Results and Procedures Act report on my desk. This is something I request every time a witness from HUD testifies. I am in the process of going through that, and I appreciate HUD's response and yours, Mr. Secretary, to my request in that regard.

I appreciate your efforts to promote homeownership, and I look forward to working with you to help make the American dream a reality for more families.

Chairman SHELBY. Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman. Good morning. It is good to have you back with us, Mr. Secretary. And thank you, Mr. Chairman, for holding this very important hearing.

I do have a full statement I would like to put in the record.

Chairman SHELBY. It will be made part of the record, without objection.

Senator STABENOW. Thank you. And I do have some comments I would like to make.

I appreciate your efforts on homeownership. There are a number of challenges, as we all know, in the housing sector today that require our attention and our leadership both on the demand side of housing as well as the supply side. And as we are talking about specific bills, I wanted to make sure to bring to your attention this morning—hopefully you are aware of legislation that I have teamed up with Senator Gordon Smith to introduce, two different bills—one addressing supply side, one the demand side—on homeownership that we are looking forward to working with you on and would certainly welcome your support of as well that builds on the efforts that you are working on.

We have introduced what we call the First-Time Homebuyer's Tax Credit, which is S. 1175. Our bill authorizes a one-time tax credit of up to $3,000 for an individual or $6,000 for a married couple. It is similar to the existing mortgage interest tax deduction in that it creates an incentive for people to buy a home. It is available to those in the 25 percent tax bracket or less.

What makes it different and unique and what we are excited about is that normally, as we know, tax credits are an after-the-fact benefit, and for young families, for individuals that are struggling to put together that downpayment and the closing costs that are associated with it, it can be oftentimes an insurmountable barrier on the front end to come up with the dollars to do that. And so Senator Smith and I have designed a tax credit that would actually be available at closing. There would be a mechanism to have that available as cash at the closing and would be redeemed by the lender.

So it is a different approach. We are excited about it. We have received a lot of support from a variety of places. We really appreciate the National Association of Home Builders as well as Habitat for Humanity, who are here today, who have offered their support for this proposal. And they have joined a long list of groups including the Mortgage Bankers Association of America, the American Bankers Association, American Community Bankers, Fannie Mae, Freddie Mac, National Association of Affordable Housing Lenders, and the National Council of La Raza, who have offered their support to the concept of a transferable tax credit.

So, Mr. Secretary, I would like very much to work with you on this concept, and also indicate that Senator Smith has introduced another bill that I am cosponsoring with him to spur the revitalization of neighborhoods through a development tax credit, which is the only side of that. I know that Senators Santorum and Kerry, among others, have been strong proponents of this concept, and I am glad that the Administration supports it as well in order to eliminate the economic mismatch between current market prices and the costs of rehabilitation in our blighted communities, and certainly this is true in many communities in Michigan as well as all across the country.

And so we have, again, a tax credit that would address those who invest in restoring homes and then returning them to private homeownership so that we can together rebuild communities.

I would mention only one other issue that I continue to work on, and I know other colleagues do as well, and we have had hearings in the past before this Committee, and that is the question of predatory lending. As we have seen an explosion in refinancing and certainly efforts to create more homeownership, we want to make sure that we are not continuing to see an explosion in predatory lending as well. And there are important ways that we need to work together to address that, and I look forward to doing that with you as well.

So thank you, Mr. Chairman, and to the Secretary, we would like very much to work with you on these two bills that Senator Smith and I have introduced that we believe are positive steps as we look at the whole issue of homeownership and how we can support families to be able to get into that first home.

Chairman SHELBY. Thank you.

Senator Dole.

COMMENT OF SENATOR ELIZABETH DOLE

Senator DOLE. Mr. Chairman, in the interest of time, I will submit my opening statement for the record.

Chairman SHELBY. Without objection.

Senator DOLE. Welcome, Mr. Secretary.

Secretary MARTINEZ. Thank you, Senator.

Chairman SHELBY. Senator Sarbanes.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Despite Senator Dole's striking example, I am not going to follow it.

[Laughter.]

Senator SARBANES. With all due respect to my colleagues.

Mr. Secretary, we are pleased to have you here again, and I want to thank the Chairman for scheduling this hearing.

We talk a lot about homeownership, and I think there is a danger that it may become a cliche, and I want to spend just a moment reminding us why we put so much effort into achieving this very important goal.

Homeownership is an asset-building engine for families and neighborhoods, indeed for society as a whole. When a family buys a home, they are buying more than brick and mortar. They are really buying into the neighborhood. With each homeowner, we create another anchor in a community, another advocate for better schools, safer streets, small business development. Common sense tells us and the evidence actually confirms that homeowners are more engaged citizens and more active in their communities.

Expanding homeownership, particularly in struggling areas, will help replace the vicious cycle of decline that we see in some neighborhoods with a virtuous cycle of wealth accumulation and economic growth. Once you own a home, you are able to build equity—equity which can be used to send your children to college, finance your retirement, and serve as a needed reserve to protect against emergencies.

Increasing homeownership, and especial minority homeownership, has long been a national goal. In fact, the Joint Center for Housing Studies at Harvard points out that the 1990's was a period of significant growth in minority homeownership and in mortgage lending to minorities. Unfortunately, over the last few years, we have seen that progress level off as the economy has cooled down.

There are a number of proposals that have been made in hopes of reigniting the progress that we have seen. Senator Stabenow alluded to efforts that she has undertaken along with Senator Smith. The Administration itself has come forward with proposals which we will be hearing about very shortly.

As we discuss ways to encourage new homeownership, though, I want to just raise a couple of concerns.

One, we need to keep in mind the importance of protecting existing homeowners. Today, delinquency and foreclosure rates are higher than they have been in many years despite an extremely favorable interest rate environment. We are confronted with predatory lenders stripping equity and driving owners into foreclosure. We see many homebuyers paying significant amounts in extra costs in the form of yield spread premiums. In some neighborhoods, we see high concentrations of foreclosed FHA homes, which attract unscrupulous investors and brokers, and they become a tool for neighborhood disinvestment and decay. And it is especially painful to watch this because FHA has traditionally been and, in fact, continues to be one of the main tools for first-time families to achieve the dream of homeownership. A foreclosed home, particularly if it sits around boarded up, becomes a magnet for crime and drugs.

The wealth of groups like Habit, The Enterprise Foundation, LISC, and many others help create over years of work can be lost in just a few months if their effort is surrounded by this panoply of predatory practices. That is why pre- and post-purchase homeownership counseling, improved protections against predatory practices, foreclosure prevention activities, home repair and improvement programs, and others must be considered as an integral part of any homeownership strategy, and I urge the Department to broaden that focus.

Finally, Mr. Secretary, I want to note that while striving toward homeownership, we cannot really achieve it for everybody. I mean, people face in many instances a financial situation that at least currently places it beyond their reach. So affordable rental housing is an important step on this path toward the ultimate goal. We can do all the downpayment assistance we want to do, but, you know, we are still going to have the negative effects on a neighborhood if you have a deteriorating public housing project, with all that

that implies. And obviously, therefore, we are concerned about the cut in public housing capital funds that have been reflected in the budgets.

The proposal to eliminate the HOPE VI Program, which has actually been a crucial tool in transforming neighborhoods of despair into vital mixed-income communities, that program has worked extremely well in some communities, not so well in others, and it seems to me the focus of attention should be on what needs to be done to make it work well in those places that have not had such a successful performance rather than zero it out. And I am hopeful that Congress will sustain that program and that the Administration, that you and your Department will then be able to continue to have this important tool for upgrading our neighborhoods.

It is a tremendous challenge, and we know you are facing it, and we are facing it, and we look forward to working with you in this respect.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Hagel.

COMMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. Mr. Chairman, thank you. Secretary Martinez, welcome.

I have a statement, Mr. Chairman, that I would ask to be——

Chairman SHELBY. It will be made part of the record, without objection.

Senator HAGEL. Thank you. I look forward to your testimony and that of the second panel.

Thank you

Secretary MARTINEZ. Thank you, Senator.

Chairman SHELBY. Senator Corzine.

STATEMENT OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you, Mr. Chairman. And, Mr. Secretary, welcome. I do have a full statement I will put in the record.

Chairman SHELBY. Without objection, it is so ordered.

Senator CORZINE. I do want to make the point, reiterate a few of the points that Senator Sarbanes commented on. I am very much in agreement with the concept of expanding homeownership through aid to people for downpayments. I think the idea of the HOME Program, the concept of the program, is terrific. Unfortunately, many times what we see in New Jersey, it has actually been diverted to other areas, even in rental issues, and maybe appropriately. But given the needs of the community, we need to really get focused programs, in my view, toward actually expanding the housing stock.

In that vein, I am very concerned—and I will be a lot more longwinded in my formal statement—about the HOPE VI Program, which is basically being wound down under the Administration policies. And I do not understand it. The HOPE VI Program has funded the creation of more than 21,000 units of homes owned by individuals, at least 3,000 of those people that came out of public housing. It is a program that worked. You know, it is doing what it is that we are all about. So I have a particular frustration that I think is reflective of what I hear in my community and State and what I hear around the country, when we are trying to expand homeownership, why that is not the case.

There are other elements with regard to assisted living and Section 8 programs that I am concerned about. I think probably others have mentioned the public housing capital fund. All of this that increases housing stock ultimately gets at the ability to, I think, provide for low-income homeownership.

There are lots of root causes of this, but I in many ways think we are taking a step back, particularly in the context of this HOPE VI issue, which is one that I hope the Administration will review and reconsider.

I do want to acknowledge that I know the Secretary is interested in this, and I believe that quite sincerely. But I think we need to review some of the things that we are pulling back from that have shown great success and move forward.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you.

Mr. Secretary, you proceed as you wish. As I said, your written statement will be made part of the record.

STATEMENT OF MEL MARTINEZ SECRETARY U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary MARTINEZ. Thank you. I will just make some brief opening comments, and thank you very much for holding this hearing. I am delighted that we are doing it in Home Ownership Month. I think that the benefits of homeownership, which have been so appropriately highlighted by many Members of the Committee, are on the record. I do believe that as we look to the future, while the housing picture is a complex one, today, properly so, I think focusing on homeownership is an appropriate and a good thing to do.

In 2001 alone, Americans took $80 billion out of the equity they had accumulated in their homes to make investments in education, consumer goods, and new businesses, and there is no question that homeownership helps families to lift themselves into a better quality of and a more secure future.

But the benefits of building a Nation of homeowners extend well beyond the individual families and also into their communities. As Senator Sarbanes pointed out about the many good things that flow to a community as a result of encouraging homeownership, also we know it has a powerful impact in the economy. This past economic slowdown which we have seen has been essentially kept from going deeper and has essentially been brought back as a result of a very strong housing sector. And I am very pleased at gatherings of my colleagues when the economy is discussed, and we can talk about the strength of the housing market and all that it has done.

The Administration wants every family to benefit from our emphasis on homeownership. However, because they face special obstacles on the road to owning their own homes, we are specifically reaching out to minority communities. The minority homeownership gap, Mr. Chairman, you pointed out during your comments exists. We want to see what we can do to contract it and to reduce it, while at the same time improving the lives of so many more families.

The barriers that we have found include the inability to come up with enough cash for a downpayment, a lack of credit history or a blemished credit record, discrimination, and the unfamiliar terms and unreliable information that are often part of the homebuying process.

President Bush and I consider removing these barriers and eliminating the homeownership gap to be a top priority for HUD and one that is fundamental to our mission as the Nation's housing agency.

The President launched America's Homeownership Challenge last June and announced his goal of boosting minority homeownership by 5.5 million families by the end of the decade. In response, HUD created the Blueprint for the American Dream Partnership. Each partner has made specific commitments that will help us reach our goal of dramatically boosting homeownership.

One way we are clearing away the barriers to homeownership is by offering new tools and new resources to the homeowners of tomorrow.

For example, the American Dream Downpayment Initiative will help make homeownership a reality for 40,000 families. The initiative, which is currently moving through the Congress—and I am so pleased that Congresswoman Harris was here today. She has introduced it in the House, Senator Allard in the Senate. We believe this is a proposal that will make a real difference in people's lives.

We have proposed increasing funding for our housing education program to $45 million, which would allow HUD to counsel 250,000 first-time homebuying families to avoid some of the very problems Senator Sarbanes alluded to in predatory lending and the like.

The Administration is also boosting funding for the HOME Investment Partnerships Program by $113 million, a total of $2.2 billion in fiscal year 2004. Both HOME and the Community Development Block Grant programs are popular, successful, and locally driven initiatives that communities can tap into to create affordable homes for low-income families.

Our proposals also include a $1.7 billion Single-Family Affordable Housing Tax Credit to encourage developers and nonprofit organizations to produce affordable homes. The tax credit will make some 100,000 homes available for purchase in low-income neighborhoods.

During the 2000 campaign, the President announced a plan to give another 2 million low-income Americans the opportunity to move into their own homes with help from HUD's Section 8 Housing Choice Voucher Program. We currently allow local housing officials to offer future homebuyers the option of applying their vouchers toward a home mortgage. Our fiscal year 2004 budget proposal would expand the program by allowing families to also put their vouchers toward a home downpayment.

These initiatives, Mr. Chairman, reflect just part of what has grown into an Administration-wide commitment to making homeownership an affordable option for every family that seeks it. With our assistance, and the support of the Congress, low-income families across the country who at one time never considered homeownership an option are becoming homeowners today, and will do so into the future.

Thank you for holding this hearing, and I look forward to answering the Committee's questions.

Chairman SHELBY. Thank you, Mr. Secretary.

Mr. Secretary, mentioned briefly in HUD's budget proposal was the creation of a FHA subprime mortgage product. Could you share with the Committee what is the status of that proposal and when Congress will see more details?

Secretary MARTINEZ. Yes, sir. That proposal is still working its way through. We are looking forward to launching it because we think it will be yet another vehicle to allow for the subprime market to also participate in the FHA program.

I am making sure with Mr. Weicker, our Housing Commissioner, that that is the case.

Chairman SHELBY. Sure.

Secretary MARTINEZ. But we are looking forward to bringing that to you for consideration.

Chairman SHELBY. Will it be a few months?

Secretary MARTINEZ. It will be very quickly. We are looking at weeks rather than months.

Chairman SHELBY. Mr. Secretary, I believe that the Bush Administration's goal of 5½ million additional minority homeowners is commendable. We have talked about that before. What would be in the increase in minority homeownership at the end of 10 years, at the end of this decade if this goal is not set? That is, what is the baseline we are starting from? What is the baseline?

Secretary MARTINEZ. The disparity that exists today is only going to be exacerbated if we see the demographic patterns continue because you see most homeowners today, 70 percent, are white majority Americans. As inheritance and things of that nature take place, the disparity could grow even wider. I believe that it is essential that we encourage these efforts to try to close that gap. While knowing that we may slightly close it or at least keep it from widening, all of our efforts really cannot combat what are long-term established demographic trends.

So, I am not wedded to a number. What I am wedded to is the effort. We are doing all that we can, not only with the things that we are asking the Congress's help in and the things that we can do as Government, but also partnering with the private sector, with the realtors, with the homebuilders, the mortgage bankers and all that are involved in the home buying and financing process, to ensure they pay special care to improving the numbers of minority homebuyers get a shot at being a homeowner. We need to combat issues like predatory lending. We need to make sure that we have a process that is also fair and equitable and allows families a shot at the American dream.

As we do that, Senator, the value in it is that we are going to be able to lift so many families to self-sustaining status and not really a dependent status which too often is the case.

Chairman SHELBY. Which is a commendable goal.

Could you describe for the Committee how you see the American Dream Downpayment working in practice?

Secretary MARTINEZ. This is a program that would be implemented through the Home Program. The Home Program already is a very successful program administered by the States and other funding jurisdictions. What we find in it is that it has a lot of local flexibility in focusing it on down payment assistance, and there have been some who have suggested that perhaps it should be unfettered use of this money to the locals. The fact is that we know the down payment is one of the key barriers to homeownership for minorities and families that are poor. So if we find that in this environment of low interest rates that sometimes a mortgage payment can be less than the actual rent a family would pay, that if we can just jump start a family with the assistance and the down payment and the front-end cost, that we can launch a family into homeownership and be successful homeowners. We are coupling that of course with the homeownership education part of it.

Chairman SHELBY. Mr. Secretary, will the nonprofit groups select families to be assisted or will local and State governments, or will it be a combination?

Secretary MARTINEZ. It will be a combination of the two working together. The HOME program already utilizes a vast array of community organizations. They will continue to do that. The American Dream Downpayment uses the established order of what is out there today, working very successfully, just giving them one additional tool.

Chairman SHELBY. How is the level of assistance determined? Is there a formula for that?

Secretary MARTINEZ. There would be, in other words, how the money is distributed will be by a formula, but how the local assistance is provided will be done by the local entities by the participating jurisdictions. The formula is based on need, for the local entities it will be based on need as demonstrated by census data and others, but it will also be done by performance, prior down payment assistance programs, and other incentives that already have been provided to minority homeowners by their participating jurisdiction.

Chairman SHELBY. Thank you, Mr. Secretary. I will come back in another round.

Senator Reed.

Senator REED. Thank you very much, Mr. Chairman. Thank you again, Mr. Secretary, for coming by.

First, no one here is going to argue against helping people get into homes. I mean that is a fundamental goal that we all have. I find it interesting thought that the mechanism you are choosing has run into some criticism. Yesterday the Committee received a letter from the National Council of State Housing Agencies, and as you know, this is an agency that represents, or the organization represents those State housing officials who seem to be closer, who are closer to the issue. They say in their letter in opposition to the proposal, that the down payment initiative would force States and localities to use a portion of their HOME fund for Federally mandated down payment activities rather than their own identified needs and priorities. It ignores the fact that down payment assistance is already a HOME eligible activity. In fact, the letter went on to note that about 40 percent of the units assisted through

HOME have been homeownership units, and according to HUD data collected by minority staff, 45 percent of all HOME funds already go to homeownership activities, approximately 11 percent are used on down payment assistance already, and indeed, following on Senator Sarbanes' comment about it today, we have to keep people in the homes that already own them, because of adverse conditions. At least in the HOME program they have the flexibility for counseling and other activities. They may not be able to provide mortgage payments, but they certainly can counsel.

I think this raises an obvious question of why is this not just additional funding for HOME under the same rules, same formula, same guidance, same flexibility to the States?

Secretary MARTINEZ. Normally it would continue to provide all of the funding that HOME has received in the past. We have boosted it this year, as I pointed out in my testimony, by 5 percent. But what we felt was important was to make an added commitment with new money, new dollars, dedicated solely to the purpose of down payment assistance. The fact of the matter is that down payment assistance is an eligible activity under HOME. Not all jurisdictions utilize it. We just thought that to give a boost to the HOME program by adding money to the program, putting in additional resources, and focusing them on down payment because the statistics show, the data shows that it is so crucial to homeownership to provide down payment, that we thought this was a good way to do it and a good way to focus on the importance of down payment by providing additional funding.

I would think that argument made would have more merit if, in fact, we were reducing the funding of the HOME program in order to segregate some funds for this purpose, but when the funding is not only at current levels, but being increased substantially in a difficult budget year, and then on top of that add new funding, I just think that frankly it is just not a complaint that I find well founded.

Senator REED. Well, it is certainly a complaint of interested parties and dedicated parties, who spend a great deal of their time trying to put people in homes, as you do.

Also, I note in the legislation that you will not use the HOME formula, that you delegated the responsibility to establish a formula, which is different than the HOME program, where I believe there is a legislatively mandated formula. How are you going to distribute this money, Mr. Secretary?

Secretary MARTINEZ. Senator, let me find my answer on the formula here. It is back to what I mentioned earlier. It is going to be based on need and performance. In other words, the formula will look to the need in the area, which is the traditional HOME formula, but in addition to that, it will look to performance. For instance, if a jurisdiction already has been engaged in a HOME program, where they have devoted some of their HOME dollars to down payment assistance, we will then take that into account, and it will be of additional assistance in providing additional funding to that jurisdiction. In other words, those who already are engaged in down payment assistance programs will have an opportunity to get specific funding based on the fact that they have already been engaged in this and found it to be useful for them.

Senator REED. Like everything here, there is a contrary argument. That is that you could use the funds to encourage people to do things they are not doing.

I think this formula issue is one that we should address. Although we all trust your judgment, I think it would be better to have something more specific in terms of your intentions.

Let me just turn to a final point, and that is, you said—and this is encouraging—40,000 families will be able to access a home, which we are all in favor of. But just to put it in context, I am told by staff there are 1.3 million families in public housing. There are about 1.9 million families using Section 8 vouchers. As I said, and I think it is a concern echoed by others, the relatively flatline funding for Section 8 vouchers cuts in public health operating expenses and capital improvements. In terms of the need, in terms of the number of people we have to serve, it seems that we have to do more there just as well as we are trying to do something for these 40,000 families. There are close to 3 million families that depend upon us for Section 8 vouchers and for public housing, and the budget is cutting those programs.

Secretary MARTINEZ. It is not Section 8 though.

Senator REED. Level funding.

Secretary MARTINEZ. Thank you.

Senator REED. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Allard.

Senator ALLARD. Mr. Chairman, I would like to lay it out here very simply. It has been alluded to in our comments that there are many barriers to homeownership, but the most significant barrier, in my view, is coming up with a down payment.

You said that in some cases the payment for a home might be less than the rent, and with changing interest rates I can see how that can be the case. I have seen it in the past that when interest rates were higher, rent and downpayments usually run about the same. This downpayment barrier is affecting responsible families. They just need to get over that hump in order to own their own home. I think that is very important. I would like to hear from you what you feel are the social and economic benefits that accrue to a family or individuals who end up owning their own home in this investment?

Secretary MARTINEZ. Senator, the benefits are broad and many. I think that there are social benefits, things that one would expect or perhaps not expect, but it shows that children that live in homes that are owned by their parents perform better in standardized testing, for instance, in schools, which is an indication of better school performance that might have to do with the stability they feel or the fact that they may be going to the same school for a number of years.

But I think to me, in addition to the very obvious social benefits, I think the thing that I would find the most encouraging is the economic opportunity it gives a family in creating equity. I think it takes a family out of the second-class citizenship that poverty so often inflicts upon people, and it gives them a chance to be in control of their own financial lives, and as such, to really rise in the way that America has for so many others provided that kind of opportunity. So, I think it is not only a social benefit, but I think very, very importantly, it is also the economic benefit that it provides for self-sustainability to a family.

Senator ALLARD. Mr. Chairman, I would also like to point out to the Committee that you have a lot of practical experience in housing programs, and I think you are very much aware, from your own personal experience, in the challenges, particularly at the local level. I personally strongly believe in incentives rather than mandates. I cannot help but think that maybe you share that concern because you have been so active in local housing, dealing with people on a one-on-one basis.

I want to inquire a bit further on what my colleague was concerned about. The American Dream Downpayment formula is structured to consider jurisdictions past homeownership activities.

Secretary MARTINEZ. Right.

Senator ALLARD. Why do you believe it is important to reward those areas that have demonstrated a commitment to promoting homeownership?

Secretary MARTINEZ. One of the things that I think we need to look at is that the participating jurisdictions had already engaged in good, successful, active homeownership programs. Those should be encouraged. In fact, I know that there are those who may not be doing it as well, and they should also be encouraged. I think the fact that the opportunity is there for increased funding should also be an encouragement, even to those that are not doing it. But the fact is that as well at the communities that are already engaged in very proactive efforts to provide homeownership, that those communities should be rewarded for their past efforts and what they have been doing successfully. I think too often, frankly, programs that can be very successful, like HOPE VI which has been mentioned here today, too often get bogged down by jurisdictions that are recipients of funds that do not handle them well, and that can be in any number of areas. The beauty of the HOME program is that it is so flexible to localities, so I think that formula, providing that kind of boost to the people who are engaged in active homeownership programs is a positive thing.

Senator ALLARD. It should be an incentive for those jurisdictions that are not doing such a good job to do a better job.

Secretary MARTINEZ. Exactly.

Senator ALLARD. As part of your blueprint for the American Dream to expand homeownership, you reached out to a large number of trade associations, private organizations, nonprofits and others. Could you briefly describe the role of these partners in the initiative to create new minority homeowners?

Secretary MARTINEZ. Senator, we have an acknowledgement that all that can be done in this area cannot be done by the hand of Government, that we really have to engage the private sector, the people who are in the business, and ask of them an equal commitment. So mortgage bankers, secondary mortgage marketers, people in the real estate and other industry have all come forward to try to do what they could to make an additional commitment of lending in minority areas, to make an additional commitment of reaching out through their marketing programs to people in minority communities.

In addition to that, we have found very willing partners and very positive partners in professional associations of minorities who are in the real estate business, and they are undertaking now a more aggressive approach of homeownership education. This is good for business. This is good for what they do. But at the same time it can have an impact of reaching into communities that too often, frankly, have just not had the vision that homeownership can also be for them. And this is one of the things that I insist on, is that we should not look at any America and suggest to them that homeownership just is not for them, that they are not ready for it or they are not capable of it. I think homeownership is a dream that should be available to every American.

Senator ALLARD. Mr. Chairman, my time has expired.

Chairman SHELBY. Thank you.

Senator Corzine.

Senator CORZINE. Thank you, Mr. Chairman.

I want to go back to—I guess I will premise it with the same thing as my colleague from Rhode Island, we all want to encourage homeownership. That is a positive value that I think is widely understood and accepted by all. Do you disagree with the statistics, with the factual understanding that the HOPE VI Program has actually broadly been a part of expanding homeownership and transitioning individuals and families from public housing to private homeownership?

Secretary MARTINEZ. I do not think of HOPE VI as a homeownership program. I think of it as an urban revitalization program which includes homeownership as a component of it. But, yes, it is an important effort to improve not only homeownership numbers, particularly people who have lived in public housing, but also in addition to that, of urban revitalization of improving communities as a result of transforming areas that have been too often blighted into what can be more vibrant neighborhoods.

Senator CORZINE. But am I mistaken, in 21,000 units of homeownership that flowed out of HOPE VI?

Secretary MARTINEZ. No, I am not disputing the number, no, but I think far more than that though. I mean it is not just homeownership. Many units have returned as rental units, but that is still a good thing.

Senator CORZINE. And actually changes the shape of a marketplace, the availability, the revitalization of the whole neighborhood actually puts more housing stock onto the market.

Secretary MARTINEZ. Right. One of the issues, Senator, that we are looking at. In fact, today, a group is convening at HUD for the second time to discuss what the future of the HOPE VI Program should be, and one of the issues that we need to address is whether all of those 21,000 homeowners are coming out of the ranks of those who used to previously reside in public housing, or are they others who are now availing themselves of this opportunity, while at the same time those who resided in public housing are somehow displaced. So providing continuity of opportunity for people who are residents of public housing has not been a perfect solution coming out of the existing HOPE VI.

Senator CORZINE. Perfect should not be the enemy of the good. And if you check around the country, which—I happen to have a strong sense of desire to see changing of neighborhoods as well as homeownership, these holistic programs have a very meaningful impact. I would continue to want to encourage the Administration yourself to review some of the thoughts about this particular program, which among almost all seem to be moving in the right direction on both urban renewal, urban redevelopment, and moving to the objective of homeownership in many, many instances.

Secretary MARTINEZ. Senator, just so you know, we have a very active group looking at the HOPE VI, what the future of it should hold. Senator Mikulski was eager in suggesting that this be done, and she and others have made suggestions of this bipartisan group to come together, people in the academic world, people with practical experience, so that we can take a good look at what the past successes of HOPE VI have been, where we have fallen short of the mark, and how as we look to the future of an urban revitalization program like this, where it should go and how it should be done.

Senator CORZINE. I would encourage you to keep our office posted as it goes along, and if there are ways that we can be helpful, there are a number of demonstration issues that have been very successful in New Jersey, and I think both under Republican and Democratic Administrations, there has been broad support within the community on the direction that this was taking.

Secretary MARTINEZ. We will do so, sir.

Senator CORZINE. Several recent studies dealing with the question of affordable housing have looked at FHA multifamily mortgage insurance rates, and we continue to have—well, we increased the threshold on loan limits 2 years ago, and I was happy to be a part of that. We continue to have this one-size-fits-all, and in some of our high-cost areas we are still dealing with thresholds that actually are keeping people from having access at getting into the mortgage market, and clearly in the Newark, New York, Boston market, this continues to be a problem. Have you looked at—are we thinking about ways that we can recognize the reality of what costs are in different marketplaces?

Secretary MARTINEZ. Yes, sir. FHA has committed and at the present is undertaking a study of high-cost areas and how those are impacted, and how the FHA program can more effectively work in those high-cost markets. So we are in the process of that study. We will be glad to keep you advised as we go forward on it, and then that should lead us to maybe some policy changes once we know what the data shows.

Senator CORZINE. Good. I think this is a practical area where we can actually be working to recognize the reality of the marketplace in different areas.

Secretary MARTINEZ. Which can only inure to the benefit of increasing the availability of affordable housing, and that is part of our goal.

Senator CORZINE. I would like to work with you on that.

Secretary MARTINEZ. Thank you.

Chairman SHELBY. Senator Dole.

Senator DOLE. Mr. Secretary, HUD is completing the rulemaking for the $75 million in the 2003 appropriations bill for down payment assistance. Could you tell us when we might expect to see that rule published in the Federal Register, and will this rule govern how future monies will be distributed?

Secretary MARTINEZ. Senator, this is currently at the Office of Management and Budget for their review. We have concluded our work at HUD, and sent it over to them for their approval and review. It is in that process right now. I am not going to try to forecast for you how long that might take, but we do anticipate that it be—you being a former Cabinet member, understand the interplay between OMB and Cabinet offices.

Senator DOLE. I certainly do.

Secretary MARTINEZ. But in any event, I believe that in the near future we will have the publication of the rule, and then that should guide our steps as we go forward with this particular portion of the American Dream Downpayment plan.

Senator DOLE. Good. The current period of low interest rates has helped efforts to get more first-time homebuyers into homes. What type of mortgage do most of these families get these days, fixed rates, adjustable rates, the hybrid? Could you give us an idea of how that is working, and do you foresee any challenges to these new homeowners should mortgage rates increase in the future?

Secretary MARTINEZ. I am going to seek a little help on that in terms of the statistical data.

Senator DOLE. Okay.

Secretary MARTINEZ. Because of the low rates right now, most families are getting the fixed rate loans. The adjustable rates seem to be more favored in times of more volatility or higher interest rates. So right now fixed rates seem to prevail. Typically a 30-year fixed rate mortgages is what most families seem to be attaining.

Senator DOLE. Okay. One of the real barriers certainly to homeownership has been a lack of understanding and information about the home buying process, and there are a variety of down payment assistance programs available to first-time homeowners. How do the potential homeowners and the lenders find out about the variety of opportunities here, and do lenders provide information about these programs to their clients?

Secretary MARTINEZ. That is part of our partnership with the private sector. We are increasingly seeing more and more lenders that are aggressively going into communities to explain the services that they have available, the variety of opportunities that are available for home financing. But in addition to that, by continuing to increase the funding, which we have done now 3 years in a row, to this year's level of $45 million, we are also providing local community organizations with the grant money to conduct outreach and education programs in the communities where they work so that we can ensure that more and more homebuyers are well informed as they go into the process.

Senator DOLE. And with regard to HUD Section 8 Housing Choice Voucher Program, can you tell us what results you have seen from this in the 2 years?

Secretary MARTINEZ. We are delighted with the results that have been forthcoming on that program. More and more families that are Section 8 recipients are choosing to go forward and obtain a home through their options that are provided for them in the Section 8 voucher program. We are continuing to encourage all providers of Section 8, which now are an increasing number that are doing this, to do that for their people, to try to provide for them the option to purchase a home through their Section 8 voucher.

The success has been very, very positive. We continue to encourage more participating jurisdictions to avail themselves of the opportunity.

Senator DOLE. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Hagel.

Senator HAGEL. Thank you, Mr. Chairman.

Mr. Secretary, in light of the recent Freddie Mac problems, a report is out today. I noted yesterday some speculation that these problems could result in higher mortgage rates, and the consequences flowing from that. Home prices might be affected. Could you give us your analysis of that report, speculation or any other observation that you might want to offer regarding what happened to Freddie Mac?

Secretary MARTINEZ. I think first of all, Senator, we are concerned about the situation and we are closely monitoring it. I do not believe that I have seen or heard enough at this point for me to be able to make any comments about the future, although I have spoken with Mr. Falcon, who is the Director of OFHEO, and he has assured me as to the financial soundness of the company, that there is no problem there or no risk there.

But let me also clarify for the record that with respect to the safety and soundness of these GSE's, that by statute, this is the responsibility of OFHEO, which is an independent organization and out of HUD's control. I frankly find that the issues that this situation raises are probably, as they relate to safety and soundness of the enterprises, better addressed by OFHEO and not by the HUD Secretary.

Senator HAGEL. I agree with that, but you certainly have a stake in all of this, and your analysis is important, which I appreciate.

Secretary MARTINEZ. As I say, we are closely monitoring it, and we are hoping that this situation will not aggravate itself and are certainly not anticipating that it will have an impact upon the mortgage market as we see it today.

Senator HAGEL. You mentioned GSE's in general. As your agency is dealing with all the dynamics of housing, and financing is certainly part of that, in your opinion, have the GSE's stayed within the boundaries of their original charters, their intentions—are they relevant today? It is a different world, different dynamics, Freddie Mac, Fannie Mae—across the board.

Secretary MARTINEZ. As it relates to their housing goals and their mission oversight, that is something that falls within the purview of HUD, and we do exercise that oversight responsibility.

I think the GSE's have been a tremendous impetus to maintaining the sufficient supply of money in the mortgage markets to allow for a very healthy mortgage market environment which allows us to be talking about homeownership like we are today.

So, I think they have been a very important component in terms of the mix that they have provided. I think they are the envy of many other countries. As I meet with other foreign leaders, they are keenly interested as they discuss housing issues in their countries in how the secondary mortgage market has worked in America and the benefits that it has brought.

I also think, without commenting on the whole complex issue that they represent, they have provided a very, very positive element toward the availability of inexpensive mortgage money to the American consumer.

Senator HAGEL. Thank you.

The Federal Housing Administration of course has played a historic role in creating homeownership opportunities over the years. There might be some sense that its role is diminishing. What is your take on that? I have read reports on that. Is it relevant? Is it more important, less important, today?

Secretary MARTINEZ. I think FHA continues to be a very important tool, particularly as we are talking about reaching into poverty communities and allowing them to taste the dream of homeownership. I think that the FHA programs are extremely busy and well utilized, and we find that increasingly, the availability of FHA mortgages is sought out, particularly in the multifamily housing.

So, I think that while it can always be further modernized, it can always be improved—and I am pushing hard for us to do all that we can in terms of modernizing and bringing it up-to-date. We have done a number of things in that during the time that this Administration has been in office—I do believe that it is not only relevant but a very important component of what the housing sector should be in the future.

Senator HAGEL. Thank you.

Do we have a vote, Mr. Chairman?

Chairman SHELBY. We are going to have a vote in approximately 5 minutes, yes.

Senator HAGEL. Well, I will withdraw. You probably have some other issues you want to cover.

Mr. Secretary, thank you.

Secretary MARTINEZ. Thank you, sir.

Chairman SHELBY. Mr. Secretary, I have a number of questions that I would like to submit to you for the record, and I know you will be prompt in getting the answers back to the Committee.

Secretary MARTINEZ. Yes, sir.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Mr. Secretary, we have had a number of discussions both at Committee hearings and also in meetings about the misuse of yield spread premiums, and you yourself have testified about the fact that consumers pay an estimated $7.5 billion in excess yield spread premiums. This is really the borrowers' money, but it does not end up to the borrowers' advantage.

In October 2001, HUD put out a policy statement that was seen by many as undercutting the effective ability of borrowers to seek redress for excessive yield spread premiums, but you indicated at the time that you were going to take action to address the issue. You recognized the issue, and you have proposed a very comprehensive RESPA regulation which would, at least in terms of disclosure—although I am concerned about enforcement—address the yield spread premium problem, and a number of us have applauded you for this effort.

But that is a complicated regulation, that RESPA regulation. It affects a lot of issues other than the yield spread premium issue. And there is talk that nothing is going to be done on the regulation for a while and so forth.

The question I want to put is what about acting more quickly on the narrow question of giving consumers the full benefit of yield spread premiums—the industry has actually testified that they should be the full beneficiaries—without tying that action to the more complex questions of comprehensive RESPA reforms?

Secretary MARTINEZ. Would you suggest doing that through rule-making, or are you suggesting some other mechanism for doing so?

Senator SARBANES. Well, we would have to look at that. The policy statement in October of 2001 said the courts should examine yield spread premiums on a case-by-case basis. This effectively undermined the ability to bring class action suits. Each borrower loses maybe $1,000, $2,000, $3,000 on a yield spread premium. That is not enough to warrant a case-by-case action, and if you preclude the class actions, you do not have much incentive for the participants in the market to drop this practice.

One would be to open again the possibility of class action suits; another would be to move ahead with the yield spread premium part of your proposal.

Secretary MARTINEZ. Senator, I think the premise of the question is that the whole issue of RESPA may not move forward, and I do not think that is the right premise—it is not the right premise.

Senator SARBANES. Well, all right. I do not particularly want to go to that premise, but there are press reports that it may be under consideration for another year.

Secretary MARTINEZ. Let me say this, Senator. I consider the yield spread premium to be an integral part of why we are doing RESPA reform. I think it is a broker issue, broker fees, and yield spread premium is a very important thing to be addressed, and I will take your suggestion under consideration if there is a vehicle by which that issue alone could be addressed in a more timely fashion. If the other issues are to be delayed, which is not clear at this point, anyway, maybe that should be looked at.

I am concerned about yield spread premium. As I said, it is one of the reasons why I thought it was important to address the whole issue of the Real Estate Settlements and Procedures Act, and I agree with the Senator that all too often there is tremendous abuse in this area and is something that should be addressed.

So if you have any—other than to assure you that I am interested in moving the entire process forward, I will be happy to visit with you and hear whatever suggestions you might have.

Senator SARBANES. I want to touch one final thing, Mr. Chairman, if I could very quickly.

Chairman SHELBY. Go ahead, Senator.

Senator SARBANES. We are continuing to have a problem with HUD in obtaining data and information. I have raised this issue in the past. HUD required all PHA's to submit up-to-date data on their voucher utilization rates and costs by April 9. We asked HUD for the submitted data as soon as possible. We need it to properly analyze the budget appropriations for Section 8 vouchers and the proposal to block-grant the voucher program and other proposals that are in to improve the voucher program, and we were told by HUD that the data would be forwarded to us as soon as HUD compiled the information.

Secretary MARTINEZ. Senator, may I just reply to that? I am not certain that I have the up-to-date information on that. I do believe that there has been some delay in obtaining from the participating PHA's all the data, but as soon as we receive it, we have to turn it around and understand it and compile it and then offer it to you.

If there is some issue there that I am not aware of, we would be happy to look into it.

Senator SARBANES. Well, the issue very simply put is that we understand that HUD has provided the data to other Members of the Senate while continuing to tell us that the data was not yet available. We did finally get it this Tuesday, but only after repeated requests and only after confronting HUD staff—and I appreciate this has not reached your level, but you know, you have that sign on your desk that says "The Buck Stops Here."

Secretary MARTINEZ. I understand, sir.

Senator SARBANES. We finally got it, but only after repeated requests and after confronting them with the knowledge that we knew that other Senate staff had received this information. So, I hope you will take that back to the Department with you.

Secretary MARTINEZ. I appreciate you bringing it to my attention, and I will do that. Senator, I apologize if that occurred, and I will look into it and try to do better in the future.

Senator SARBANES. All right. Thank you very much—well, it is not you; it is the people below you who have to do better.

Secretary MARTINEZ. I understand—you are right about the sign on the desk, though.

[Laughter.]

Chairman SHELBY. Senator Carper.

Senator CARPER. When I became Governor, I got rid of that sign on my desk.

Secretary MARTINEZ. Did you?

[Laughter.]

Senator CARPER. You may want to consider the same.

I just want to reiterate a couple of points that have already been made, I think by Senator Reed, before I got here.

Governors and mayors are especially mindful of the need for flexibility with funds that they receive, particularly from the Federal Government. And one of the concerns that I think Senator Reed raised is at its heart a flexibility issue. As I understand it, the $200 million that you are proposing to take and create the American Dream Downpayment Fund is actually money that is coming from—well, where does that money come from?

Secretary MARTINEZ. That is new money, Senator. That is not in any way impacting already existing funds that the HOME Program receives. So all the funding that the HOME Program currently receives will continue to flow in the same way as before. In addition to that, this year, we have a 5 percent increase to the HOME Program, which is very vital to creating more affordable housing.

We are creating a new program which is the American Dream Downpayment, and we are funding it with new dollars which are not funded or coming from any other source that currently is receiving it. So while coming from local government, I do agree with your appreciation for local flexibility. What we are doing with this is not only providing all the local flexibility that HOME Program already provides, but also adding a new thing where we are highlighting what we believe to be the remarkable importance of downpayment assistance toward helping families become homeowners.

Senator CARPER. OK, good. That is an important clarification, and I thank you for it.

What does the Administration propose with respect to the HOPE VI Program?

Secretary MARTINEZ. Senator, the HOPE VI Program was a 10-year program, and it had a beginning and an end, and this was the last year of the current authorization. In addition to having been very successful, we have also seen that much of the money that was appropriated and has been awarded to different communities remains yet to be utilized by many communities. And also, over time, we have heard things like displacement issues, about what happens to people who are in public housing and now have to move out, and where do they go, and what are their chances of coming back to the new development—things of that nature. And we thought it was, after a 10-year experience, largely positive, and it was a good time to take a good look at the program, continue to fund, obviously—all the awarded communities will continue to receive the funding for the projects that they have been awarded—but before awarding new projects beyond the current and the next year's budget program, that we should take a good look at where the program was and how we might improve it.

We have convened a group of people with suggestions from Members of Congress on both sides of the aisle to provide some insights and some inputs. Some people have been involved with the program from the inception. Others have been involved in the participation in the program now, and——

Senator CARPER. Fine, fine. I appreciate that. Roughly what is the level of funding for HOPE this year; do you recall?

Secretary MARTINEZ. In this upcoming budget year?

Senator CARPER. No—in this current fiscal year.

Secretary MARTINEZ. Five hundred seventy-four million.

Senator CARPER. Five hundred seventy-four million. And for next year, what are you proposing?

Secretary MARTINEZ. We are not proposing any funding for that at all.

Senator CARPER. So it would be zero?

Secretary MARTINEZ. That is correct.

Senator CARPER. OK, thank you. And one of the add-ons or additions to your proposal for next fiscal year is for this $200 million American Dream Downpayment Fund?

Secretary MARTINEZ. Correct.

Senator CARPER. All right. Let me just reiterate another point that Senator Sarbanes has made. In the briefing materials that have been provided to me—I am just going to read them, if I could, and then ask you to respond—"The Administration put out a policy statement in October of 2001 that undermined the ability of consumers to protect themselves against the yield spread premiums that lenders pay brokers to steer borrowers to higher-rate loans.

HUD's own data say borrowers pay $7.5 billion more in yield spread premiums than they should. This problem hits minorities especially hard. Secretary Martinez has reiterated this point himself at a number of hearings, yet HUD has still not done anything to address this problem."

And the assertion here—the bottom line—is that "HUD could solve this problem immediately without resolving all the other issues involved in RESPA."

My hope is that we move forward on RESPA as well, and again, the assertion that has been made here, the one that Senator Sarbanes raised, is in addition to moving forward with respect to RESPA, why can't we do something on this without legislation.

Secretary MARTINEZ. Senator——

Senator CARPER. Excuse me. I just want to let you know that at least two Senators are concerned about this——

Secretary MARTINEZ. I hear you.

Senator CARPER. —and want you to look hard at it.

Secretary MARTINEZ. And let me say that I would translate that into a call for us to continue forward with reform of RESPA, which I appreciate, and I look forward to working with all who are interested in the subject to move it ahead.

Senator CARPER. But there are two tracks we can go here. One is the regulatory, and one is the legislative. I think we should do both, and I would ask that you and your people consider that.

Secretary MARTINEZ. I have no problem with any potential legislative fixes that could be obtained that would take care of the yield spread premium problem. I think there are serious problems that have to be addressed.

Senator CARPER. Thank you.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Reed, do you have a quick question?

Senator REED. If I may make two quick points, Mr. Chairman. First, with respect to the formula gain, Mr. Secretary, the presumption that I think you are operating on is that every area of the country has an equal opportunity to engage in a homeownership program. But I think it is very difficult for a place like New York City, Long Island, Rhode Island, Boston, Los Angeles, and Atlanta metro area to do those things. So if you are rewarding for past performance, you might miss out on the opportunity to help these communities. And I think the biggest difference, obviously, is between the price of homes in some of these areas versus other parts of the country where you can assemble a lot and build a home rather inexpensively and put somebody in that home.

So that is one point. The second point is that over and over again, we have made the point that the biggest hurdle to homeownership is the downpayment. Well, I think the biggest hurdle physically is income. You can go out and win the lottery and you will have $20,000, which will cover the closing cost for lots of home, but if you do not make $70,000 or $80,000 a year, you are not going to be put in a home.

I just think that is a point to grasp, because one of the reasons over the last decade that I think we have seen some progress in minority homeownership is because we have seen increases in minority income. And unless we maintain and sustain those increases, a lot of what you are doing, admirable though it is, will not be able to achieve the goal.

Secretary MARTINEZ. I think that is an excellent point.

Senator REED. Thank you, Mr. Chairman.

Chairman SHELBY. Mr. Secretary, we appreciate your appearance today and appreciate your candor with us, and we are going to continue to work with you.

Secretary MARTINEZ. It is good to be with you, sir. Thank you very much.

Chairman SHELBY. We have a vote pending, and we are going to introduce the second panel if we can.

The second panel consists of Ms. Terri Montague, President and Chief Operating Officer at The Enterprise Foundation; Ms. Kathy Whatley, President, National Association of Realtors; Thomas Jones, Vice President, Habitat for Humanity International, and Mr. Bobby Rayburn, First Vice President, National Association of Home Builders.

We appreciate the second panel's patience this morning. You are going to have to be a little more patient, because we have a vote on the floor, but we wanted to introduce you and get you seated, and we are going to go vote and come back, so be at ease.

The Committee will be in recess until we get back.

[Recess.]

Chairman SHELBY. The Committee will come to order.

All of your written statements will be made part of the record without objection.

Ms. Montague, we will start with you. If you will briefly sum up—you can tell how dragged out we are today—your pertinent testimony.

STATEMENT OF TERRI Y. MONTAGUE PRESIDENT AND CHIEF OPERATING OFFICER THE ENTERPRISE FOUNDATION

Ms. MONTAGUE. Thank you, Senator Shelby, for inviting me.

Just a brief bit of background. Enterprise is a national nonprofit organization that supports community-based revitalization, and we are currently investing in excess of half a billion dollars a year to support a wide range of community renewal initiatives.

We commend President Bush and Secretary Martinez for their continued commitment to increasing low-income and minority homeownership.

Very briefly, I would like to emphasize how homeownership is helping to stabilize and strengthen low-income communities. I will use one real-life example that is very familiar to Senator Sarbanes. It is in the Sandtown-Winchester neighborhood in West Baltimore.

Enterprise and local residences have been working for a decade to help restore health and vitality to this historic African American community. Sandtown had fallen on hard times when Enterprise and our partners committed to a holistic revitalization effort about a decade ago.

The good news is that 10 years later, Sandtown is now starting to turn around, as evidenced by homeownership rates that have more than doubled during the 1990's, median incomes that have risen 22 percent on an inflation-adjusted basis, unemployment and vacancy rates that have fallen by one-third, crime rates that are significantly lower, and student achievement and test scores that are substantially higher.

After decades of disinvestment and decay, hope—and new investment—is returning to Sandtown. This is true largely due to large-scale development of affordable for-sale housing. Enterprise has developed nearly 400 for-sale homes in the area, with another 200 more in the pipeline. We have also provided financing to help Habitat for Humanity build another 200 homes in Sandtown. Virtually all of these homes are being provided to working African American families. And, to be sure, Sandtown still faces many daunting challenges, but its progress and its momentum are undeniable.

We have learned three important lessons in Sandtown that apply to our and others' community revitalization experience across the country. The first is that there is not nearly enough affordable for-sale housing. Harvard's Joint Center for Housing found that the number of for-sale homes affordable to low-income people in this Nation dropped by half a million between 1997 and 1999.

Enterprise's experience is that the shortfall is especially acute in predominantly low-income and minority communities. Even though, as we see in Sandtown, many current and potential residents are ready and willing to purchase in those areas. A major reason for the homeownership supply shortage in many low-income neighborhoods is that it costs much more to build the homes than the homes can sell for in those areas. For this reason, grassroots groups need desperately to have many more resources to help bridge this gap.

We are encouraged by the proposed homeownership tax credit and feel that that would be such a resource. The credit would help meet one of the major barriers to expanding minority and low-income homeownership while creating jobs and stabilizing neighborhood revitalization.

We urge the Committee Members who have not already done so to cosponsor the bipartisan Senate bill to enact the credit, S. 875. We thank Senator Reed and the Committee Members who supported his efforts to protect the rental housing tax credit from harm in the recent tax bill.

In addition, we are urging Congress to continue to fully fund and strongly support effective programs for spurring affordable homeownership development and community-based groups. The HOME Program that has already been referenced, the CDFI fund, and the Section 4 Program, are three important examples.

The second homeownership lesson that we have learned in Sandtown is that acquiring abandoned buildings for redevelopment is enormously difficult. Sometimes it is local policies that are often the strongest impediment. But the Federal Government can help grassroots groups gain control of vacant buildings as well.

One example is the Federal Housing Administration's Asset Control Area Initiative, which allows for local governments and qualified community-based groups to acquire vacant government-owned homes for rehabilitation and resale to buyers in very distressed communities.

We and others have been working with HUD to ensure that the ACA Initiative operates in a timely and flexible manner. We have been making good, if sometimes slow, progress in this regard.

The third and final lesson that Sandtown offers for today's hearing is that homeownership alone is not enough—it is not enough for families, for neighborhoods, or for a Federal housing policy that truly spans the full spectrum of housing needs.

For families, homeownership will only be beneficial if they can stay in their homes. Pre- and post-purchase counseling and fair loan terms are critical to sustain homeownership. For a community, homeownership only contributes to true revitalization if homeownership can build wealth. That usually requires additional investment in the neighborhood.

For Federal housing policy, homeownership only makes sense as one option for solving housing problems. Public housing, rental assistance, and new rental apartments are all as essential to a holistic housing policy.

Many families will need supports for these types of housing before they can become homeowners. We urge the Federal Government and this Committee to help sustain and expand these forms of support. From Enterprise's point of view, it is time we broadened our idea of the American dream to include every decent, affordable home whether it is rental or whether it is for sale, and to dedicate sufficient resources to make that dream a reality for more American families.

Thank you for the opportunity to testify.

Chairman SHELBY. Thank you very much.

Ms. Whatley.

STATEMENT OF CATHY WHATLEY
PRESIDENT, THE NATIONAL ASSOCIATION OF REALTORS

Ms. WHATLEY. Thank you, Mr. Chairman, Senator Sarbanes.

As the 2003 President of the National Association of Realtors, representing more than 900,000 members, it really is an honor and a privilege to be able to testify today.

Realtors strongly believe in the fundamental benefits of homeownership. Homeownership gives families a sense of belonging, an emotional connection to the community. It instills pride and a sense of purpose. It helps build a stronger social fabric. It sustains vibrant neighborhoods, and it contributes to economic growth.

NAR supports strong national housing policies that expand affordable housing for all Americans. We stand ready to continue to work with Congress and specifically with you and your Committee Members to enact favorable policies that benefit our Nation.

We support a number of legislative and regulatory proposals including, first, Senate Bill 811, The American Dream Downpayment Act, which would help close the gap between income and housing affordability by providing downpayment assistance to 40,000 first-time home buyers every year. As has been mentioned here today, securing a downpayment remains one of the biggest obstacles to homeownership.

We support Senate bill 875, the Renewing the Dream Tax Credit Act, which would provide a significant tax credit for developers and investors to construct or renovate homes in distressed neighborhoods for low- and moderate-income families to purchase. Approximately 50,000 homes would be generated each year, and while this bill is not under your Committee's jurisdiction, it is our hope that you will support it.

Also, we support an FHA sub-prime mortgage product, which was proposed in the President's fiscal year 2004 budget. After 24 months of on-time payments, the premiums on this new product for borrowers with poor credit would be reduced. We also believe that providing an FHA alternative would protect home buyers who are customarily at risk for predatory lending. It would also make homeownership available to an estimated 62,000 credit-impaired home buyers in the first year alone.

Furthermore, we support congressional hearings to review insurance scores that are keeping an increasing number of consumers from becoming home buyers. Amending Section 214 of the National Housing Act to add more States to the list of high-cost areas has been mentioned here.

We support a technical correction to the new FHA Hybrid Adjustable Rate Mortgage Program, and preservation of the FHA 203(k) Rehabilitation Program.

In conclusion, Mr. Chairman, we strongly believe that homeownership is the cornerstone of our democratic system of government; it continues to be a strong personal and social priority in this country, and it is a huge economic force as well, driving and leading the Nation's economic activity.

We appreciate the opportunity to share our viewpoints. Going forward, we stand ready to work with you to fashion legislation that will enable more Americans to stake their claim in the American dream.

Thank you.

Chairman SHELBY. Thank you.

Mr. Jones.

STATEMENT OF THOMAS L. JONES
VICE PRESIDENT
HABITAT FOR HUMANITY INTERNATIONAL

Mr. JONES. Mr. Chairman, Ranking Member Sarbanes, very much appreciated staff, colleagues and friends—Habitat volunteers all, thank you for the opportunity to represent Habitat for Humanity to share some of our convictions about expanding homeownership opportunities.

Habitat for Humanity's basic premise is that every human being should have the opportunity to have a decent place to live, if possible by experiencing the dream of homeownership. Habitat for Humanity cares for those at every place along the whole spectrum of need, and there is a spectrum, from those who are homeless on the street to those who are living in short-term shelters to transitional housing to various types of rental housing. But for most, the ultimate still is to own your own home.

Habitat for Humanity's niche is for homeownership for low-income and minority persons who perhaps in no other way could ever own their own homes. But we believe in practice that the public, the private, the nonprofit, the faith-based, organized labor—all the sectors—all need to support and respect those who focus on every part of the whole spectrum. We all need to be in all of it together.

But in that context, Habitat for Humanity's goal is to bring us all together, to be certain that that commitment to homeownership includes all persons regardless of economic standing or race or culture or national background or religion or political beliefs—that all should have the opportunity to live the American dream of homeownership.

At the time of the purchase of their homes, 100 percent of Habitat for Humanity homeowner partners are at or below 50 percent of median income. And I cannot overemphasize the importance of targeting for low-income persons in Federal legislation for decent housing.

We in Habitat for Humanity are so thankful that during this National Homeownership Month, all of us in this room and other housing leaders across the country are committed to leading to narrow the gap for homeownership between minorities and others. After 27 years and 50,000 houses built in the United States (of the 150,000 houses built worldwide), the regular criteria for choosing Habitat homeowner partners has resulted in 100 percent of these partners being low-income at the time of their purchase; with 71.8 percent of these being minority homeowners—Hispanic, African American, Native American, or Asian.

Mr. Chairman, Senators, thank you for your support of this mission by which, through homeownership, wonderful life-changing results are being achieved by low-income families, with marvelous results of improved education of children and youth, economic asset-building and equity-building of families, better health, improved communities—growing citizens in so many ways. And now, across the country, through enhanced human dignity, increased self-worth, new hope for the future is resulting in these homeowners gathering together to build their own communities and do community development on their own.

We are appreciative of your support and we ask for your increased support of programs such as SHOP (Self–Help Homeownership Opportunity Program) and Capacity-Building for Habitat for Humanity. Habitat is one of the four organizations, including Enterprise and LISC, who are eligible for Section 4 funding.

We encourage you to support the single-family homeownership tax credit now before you, and we strongly urge that you include in that legislation modest set-asides to assure level playing fields for nonprofits.

No words can say it adequately, but our hearts can feel it when we are relating together to these homeowners. So before I quit, I need to express genuine, heartfelt thanks to you for the program we inaugurated last week called "Congress Building America," in which most of you participated and which you unanimously approved with your Senate Concurrent Resolution Number 43. By your expressed participation in that, you have said that "we are going to show America in these years ahead." And we appreciate our colleagues here, the Home Builders and the Realtors, who are two of the 13 CBA National Underwriters from the private sector for this important program; and we are grateful for HUD Secretary

Martinez, who has led the way in developing “Congress Building America” from the first discussion of it.

We will, we hope, in the remainder of this session, and in the 109th Session of Congress, continue to be together, not in hearing rooms like this, but on Habitat for Humanity building sites, as together we build with a cross-section of Americans and with Habitat for Humanity homeowner-partner families.

Mr. Chairman, if I may, I would like to conclude with a brief story that happened this week in your home State in the City of Anniston. This week, the Jimmy Carter Work Project is in Anniston with about 4,000 volunteers, “blitz-building.” They are going to blitz-build over 100 houses in Anniston and two other communities in Georgia. Anniston is the first city to make a commitment to the 21st Century Challenge. They have said that by the year 2013, a date certain, we will eliminate substandard housing from our community. And the first houses toward that are being built this week in the blitz-build in Anniston.

A family named Washburn gave 80 acres of land to develop a new community. One hundred of those houses will be Habitat houses, including parks and the like. Thirty-five of those houses are being blitz-built this week. And believe it or not, on Monday morning at 5:30, I had Bobby Rayburn’s predecessor, Kent Conine, this year’s President of the National Association of Home Builders on site at 5:30 in the morning! We started building with President and Mrs. Carter and the other 4,000 volunteers.

We were on Building House 15 with the Carters. On House 14 was Millard Fuller, one of your law school classmates, Mr. Chairman, at the University of Alabama Law School. At about noon, Millard got called out—we had a lot of media there—to do an interview with CBS radio. Near the end of the interview, the reporter asked, “Who is the homeowner on the house you are building?”

Millard replied, “It is a wonderful woman named Charlene Kincaid and her two sons, Donarius, 17, and Darryl, 13.”

The reporter asked, “Do you think I could talk to them?” and Millard said, “I will ask them. We let them decide.” They were glad to do it.

Charlene Kincaid told how she and her two teenage sons had never had a home. They were living in one, single room—two teenage sons and a mother, no privacy, cramped space—and now they will have their own home. She told what that meant.

The reporter asked the 13-year-old, “Do you know where your room is?” We were on the deck of that house. He said, “This is my room. I have never had a room of my own. And this is the closet. I have never had a closet of my own.”

And then, the reporter said, “Mrs. Kincaid, have you decided how you are going to decorate the inside of your house?”

She said, “No. I am very carefully considering that, because I want to do it right, because you see, this is going to be my home for the rest of my life.”

There are so many Charlene’s and Dinarius’ and Darryl’s out there, deserving homes for the rest of their lives. That is why, all together, we have just got to expand homeownership opportunities.

Thank you.

Chairman SHELBY. Thank you.
Mr. Rayburn.

STATEMENT OF JAMES R. (BOBBY) RAYBURN
FIRST VICE PRESIDENT
NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. RAYBURN. Good morning. My name is Bobby Rayburn, and I am a builder from Jackson, Mississippi. I am also the First Vice President of the National Association of Home Builders. I am proud today to present the views of our 211,000 members.

Thank you, Mr. Chairman and other Members of this Committee, for having this hearing on expanding homeownership during National Homeownership Month. Housing affordability and extending homeownership opportunities to all who desire to own their home are important to the mission and agenda of NAHB. These are also priorities of my own home building business.

My written statement reflects the numerous initiatives taken by NAHB at the local, State, and Federal levels to expand homeownership opportunities. This morning, I will confine my remarks to our Federal legislative priorities.

Barriers to homeownership manifest themselves in two primary ways. First is the difficulty faced by the potential home buyers in raising the cash necessary to make a downpayment and cover the closing costs. The second impediment to homeownership is the oftentimes cumbersome and duplicative regulations at all levels of government that inflate land, construction, and ultimately, housing prices.

The initiatives we focus on today alleviate these barriers. At the top of our legislative agenda are two very similar bills—S. 198 and S. 875. Both bills create a tax credit for the development and rehabilitation of housing in difficult-to-develop areas for low- to moderate-income families. I am pleased to thank so many Members of the Committee for your support and cosponsorship.

Both bills reflect and complement the Administration's proposal to expand homeownership opportunities for minority populations. This legislation uses the Tax Code to bridge the gap between construction costs in underserved areas and the market price so as to make the home more affordable to those families with incomes at or below 80 percent of the median.

Not only would this homeownership tax credit close the gap between homeownership rates among these distinct population segments—it would also revitalize communities. Existing buildings in distressed areas frequently are not renovated because the costs involved are so excessive that they cannot be sold at an affordable price.

This credit would also give a positive economic impact by resulting in the production of 50,000 homes per year and creating 120,000 jobs annually.

A complementary bill just introduced by Senator Stabenow would facilitate homeownership for the first-time home buyers by producing a source of assistance for up-front home-buying costs. The bill creates a refundable tax credit of $3,000 for singles and $6,000 for married couples. The credit could be assigned during the purchase negotiations to cover the purchase, financing, and closing costs incurred by the buyer.

We also support Senator Allard in his efforts to move the American Dream Downpayment Assistance Act. This bill provides $200 million to assist lower-income families in achieving homeownership. This legislation targets funding under the Home Investment Partnerships Program to provide State and local governments with resources for programs to provide critical downpayment and closing cost assistance.

We do believe, however, that the HOME Program is a highly successful program and a vitally important source of gap financing in supporting affordable housing production in conjunction with the low-income housing tax credit, tax-exempt bond financing, and other affordable housing programs. Our strong preference would be that additional funds be allocated to support the American Dream Downpayment Assistance Act.

Finally, in the context of FHA modernization, one area where FHA can add significant value is through the insurance of single-family construction loans. Most builders, particularly smaller companies, which account for three-quarters of annual new home production in this country, must rely exclusively on insured depository institutions for construction credit. There is no secondary market to attract new lenders and investors to the market. The development of a secondary market would lower the cost of construction credit, help attract more capital to underserved areas, and help home builders avoid the type of severe credit crunch experienced in the early 1990's.

The availability of FHA insurance for new home construction loans would help create such secondary market outlets by opening up the Ginnie Mae Mortgage Securities Program to single-family construction loans. This is already in place on the multifamily side of FHA's and Ginnie Mae's business. NAHB feels that an FHA-insured home construction loan program would improve competition in the housing production loan market by attracting new lenders such as mortgage banking companies.

Mr. Chairman, that concludes my statement, and we applaud the Committee for its leadership on these issues and look forward to working with you and the rest of the Committee as these ideas and proposals go forward to help promote additional homeownership in this country.

Chairman SHELBY. We thank all of you for your testimony.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman. I am going to have to excuse myself, and I appreciate you letting me go first to ask just a couple of questions.

First of all, I want to say to all four witnesses that these are enormously helpful statements that you have submitted. I have looked through them—I have not studied them yet—but I have looked through them, and obviously, a great deal of effort went into preparing them, and they are very comprehensive and obviously very thoughtful, and we very much appreciate that contribution to the deliberations of the Committee.

I want to say to Mr. Jones that first of all, I was very pleased to hear about what is being done in Anniston; it is pretty exciting, and you can take a lot of pride in that.

Chairman SHELBY. It sure is; my home State.

Senator SARBANES. Mr. Jones, two very able employees of this Committee left the Committee's employ to go to graduate school, and now they are working at Habitat for Humanity. So the first question I want to put to you is when are you going to stop stealing our employees.

[Laughter.]

Mr. JONES. I just want to express appreciation for the good training you gave them, for the fact that they have seen the light.

Senator SARBANES. You got yourself two terrific people.

Mr. JONES. We do—Amy Randel and Christen Wiggins.

Senator SARBANES. Yes, they are terrific people.

Ms. Whatley, it is nice to have you back. You have been before the Committee before, and you always do a very good job, and I am pleased to welcome you.

I just want to touch very quickly on the insurance and credit scoring. Ken Harney, a national syndicated real estate columnist, wrote a column about this. I understand that insurance companies are increasingly using FICA and other credit scores to determine the availability and price of homeowner's insurance even though no causal connection between credit scores and claims has been demonstrated. Some States have limited or prohibited—Maryland has prohibited—"the use of credit scores in the pricing of insurance."

I also understand that insurance companies are using another private database known as CLUE, which apparently results in certain homes getting electronically stigmatized so the current owner may not be able to buy any insurance, nor could a new buyer, regardless of his or her credit or insurance history, get insurance on the particular property.

How serious a problem is this?

Ms. WHATLEY. We have seen and heard a lot of anecdotal stories from the field. I can tell you that personally, 2 days ago, I got a notice from my insurance company that all of my rental properties are not going to be renewed, although I have filed no claims.

So there are real issues out there in the marketplace. And we understand that insurance companies have to deal with some of their own circumstances that they have found themselves in. But the National Association of Independent Insurance Agents and Brokers actually did and released a survey that said that more than 2.5 million households lost their homeowner's coverage in the last 24 months, and that more than half of those were households in the South; that about 73 percent of those were able to find other coverage, but that is 27 percent who were not able to find other coverage, and that 73 percent found increasing prices.

Part of the challenge in the homeowner market is that if you have filed any type of previous claim, especially if it was a water-related claim, many insurance companies are not wishing to issue new coverage because of their potential exposure and risk, and that is a challenge even for homeowners who may have called and just asked, inquiring about deductibles. For instance, if I had a water leak and I wanted to call my insurance company and ask what was my deductible—I am trying to determine whether I want to fix it myself or whether the claim is significant enough that I want to file with the insurance company—some companies, even by just making that call, are logging me in as a claim, even though—it is called a "zero dollar claim." But the insurance company then has that information that they are reviewing and calculating that my home may be a potential risk down the road, so I am not even getting the benefit of having been a good citizen and not having caused any type of financial hardship for the insurance company.

So there are a lot of things stemming around insurance that are causing challenges in the affordability and the availability side. State legislatures have to look at some of those issues because insurance is State regulated, but there are some things that may have some focus within your purview, and we would ask you to be aware that there are real concerns out in the marketplace.

Senator SARBANES. That is very helpful.

My time is up. Ms. Montague, I just want to thank you for your strong testimony on Sandtown-Winchester. I know that neighborhood well, and I know the work that Enterprise has done there.

Actually, maybe all of the panel members could submit for the record their view of the role that HOPE VI places in revitalizing neighborhoods and how important you regard that program as being, because we obviously have an issue here because, regrettably, it is not in the President's budget submission.

Mr. Rayburn, I found your testimony very interesting, and we are going to submit a couple of questions to you for the record.

Mr. RAYBURN. Good. And we would be glad to respond on the HOPE VI question also.

Senator SARBANES. Yes, we would very much like that. The Home Builders to their credit have always taken a keen interest in these issues, and we appreciate that very much.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Carper.

Senator CARPER. Thank you, Mr. Chairman.

I want to follow up, Ms. Montague, on your comment that Senator Sarbanes just mentioned with respect to the Sandtown-Winchester neighborhood. I understand that some new rules that HUD has proposed for this program may be overly restrictive and might diminish the impact that you could otherwise have through these kinds of initiatives.

Do I have that right? If not, correct me, and if so, please explain in a little more detail how the proposed rules would affect this kind of initiative.

Ms. MONTAGUE. Yes. I believe you are referring to the Asset Control Area Initiative.

Senator CARPER. That is right.

Ms. MONTAGUE. I appreciate the question. Just by way of a little bit of background, the Asset Control Area Initiative is an important FHA program that effectively enables local governments and qualified community-based organizations to take abandoned Federally owned properties off the government's hands, rehab and resell those properties to low-income residents.

The program was initially implemented on a pilot basis in 16 jurisdictions by the prior Administration. In 2002, as the program was just getting under way, HUD suspended it after the inspector general found that there were some concerns about lack of management controls and potentially some administrative irregularities.

The program is just in the process right now of restarting, and we are optimistic that they will be back in business very soon. In the meantime, there have been some very active conversations with HUD about two areas of concern. One area, as you noted, has to do with HUD's narrow interpretation of the flexible statute that created the program. We and other ACA participants have been disappointed that HUD has to date not allowed us to sell homes for full market value. Another restriction is that we have been restricted in our ability to sell properties at 110% of eligible expenses on a portfolio versus an individual property basis. And finally, we are eager to see HUD view more favorably our recommendation that we are able to convert a limited portion of the multiunit properties into rental housing as opposed to simply reserving them for for-sale housing to investors.

So those are the three prongs. They affect different geographies in different ways, but in total, those are the concerns that are being raised by the 16 participants.

Senator CARPER. Thank you for each of those three prongs.

I am going to telegraph not my next pitch but the one coming right after this. I am going to ask each of our panelists to be thinking about this, and then I will come back and ask the question. We have just heard, and I believe you were here when Secretary Martinez presented and defended the Administration's proposals to increase homeownership, some of which I think have great merit, some of which I think may be more suspect. And the question I am going to ask you before you leave and before I leave is: Of the Administration's proposals to foster greater homeownership, what do you think is a really terrific idea? And the second half of the question is: Of the Administration's proposals, which do you think represents a place that we do not want to go?

I will give you those two thoughts, and while you are thinking about that, Mr. Rayburn, I have a different question for you. On page 10 of your testimony, you discuss the work that Home Builders are doing with local governments to encourage, I think, some innovative development around transit facilities.

I just want to ask you if you could describe some of those activities and maybe your goals in that regard. We have just seen an interesting partnership, Mr. Chairman, of Fannie Mae with some of our local lending institutions, where we actually offer some people help on more affordable loans, help on interest rates, help on closing costs, as I recall, for people who are purchasing a home that is closer to a transit facility or to a place where they can catch a bus or take a train.

Just take a minute and tell us a little bit about what you all are doing in this area if you would.

Mr. RAYBURN. Those are partnerships, Senator, that we have with our local Home Builders Associations, and they are doing a number of different types of various programs, as I understand, and they are working very well. But in an effort to continue to focus in a local area—and all of our members are locally based—they know best what the exact need is in the area.

Senator CARPER. I am just pleased to hear that you have taken some interest in this issue——

Mr. RAYBURN. Yes.

Senator CARPER. —and I just want you to know that some others are as well. And I like to say that the States are laboratories of democracy, and we are trying to provide one up in Delaware.

Mr. RAYBURN. And we agree also.

Senator CARPER. All right. Back to the rest of the panel. What do you really like about the President's—I guess they are the President's proposals—those presented by the Secretary, and then maybe an area that you think we ought not go?

Ms. MONTAGUE. The really great idea is the homeownership tax credit because it is going to create another investment vehicle and foster a true ownership stake in these communities and draw additional investment and resources into underserved markets.

The not-so-great idea, and in fact downright bad idea, from our perspective is the elimination of HOPE VI. In order to revitalize these communities, it is vitally important to bring mixed-income investment, and to revitalize what is often the blight in these kinds of neighborhoods—the public housing stock.

Senator CARPER. Thank you very much.

Ms. Whatley, how are you doing?

Ms. WHATLEY. I am doing great.

Senator CARPER. It is nice to see you again. You are a regular here, aren't you? We are going to have to start paying her to show up, Mr. Chairman.

[Laughter.]

Ms. WHATLEY. It is a privilege to be here.

I think several things are great ideas—certainly the American Dream Downpayment Act. Downpayment assistance is a critical component for people to be able to get into housing.

Second, I would echo Ms. Montague's tax credit proposal. It is absolutely essential that we begin to drive some directive to providing the actual housing abilities themselves. Housing prices themselves cannot sustain without some incentives provided to developers and investors. That is a must.

Third, I think that HUD's FHA sub-prime mortgage product is a good idea, because that can help to begin to shape an environment in which predatory lending can begin to diminish as there are reasonable alternative products for those who have to be in the sub-prime market, and there is an incentive there for them to be able to pay on time and to have reduction in programs.

I cannot say that I see any downright bad. I can only say that we should go anywhere and everywhere, as far as we can, with anything that promotes homeownership and rental programs. So as far as you can expand it and as many things as you can commit to, it is time for housing to get its stake, real stake, in the pie, and I would ask you to expand it.

Senator CARPER. Thank you, ma'am.

Mr. Jones.

Mr. JONES. We are very much appreciative of this whole homeownership, particularly narrowing the gap between minorities and low-income persons and others. That is really the business that Habitat for Humanity is in, and this is a great help in terms of making it a matter of conscience across our whole country that this is the right thing to do. We may debate on some of the "hows" but it is the right thing to do.

We are also very appreciative of the tax credit for homeownership legislation possibilities. We think this has huge potential. We do think it is important that there be a modest set-aside for non-profits, for reasons that we can get into if we need to.

I guess I would reiterate what Terri said in terms of HOPE VI. In various places, that has been very helpful in terms of community development aspects of Habitat for Humanity development.

Senator CARPER. Thanks.

Mr. Jones, I would be remiss if I did not just add that I have been mentoring the same young man for 6 years. Darryl Burton is his name. He is one of five boys raised by a single mom who 5 or 6 years ago was on welfare and now works and supports the family. Her oldest son just graduated from high school last weekend. They are going to move into a Habitat for Humanity house this summer. It is the first home they will have ever owned, so it is a source of great pride and joy for them and for us.

Mr. JONES. That is great.

Senator CARPER. Mr. Rayburn, you get the last word.

Mr. RAYBURN. We are thrilled about the homeownership tax credit. We think that will go a very long way in helping a lot of very deserving families in this country while at the same time producing new construction. The production program is always welcome amongst NAHB's membership.

As far as the American Dream Downpayment Program, we are not exactly super-thrilled with that program because we believe that those dollars could probably be better used in some other way. Also, we believe that additional dollars should be allocated to the program, instead of coming from home.

We have concerns with the proposal of block-granting the Section 8 Program. We would also like swifter progress, if possible, by HUD on the multifamily high-cost area proposal that you are looking at.

Senator CARPER. Thanks very much.

Mr. Chairman, you have been generous with the time. Thanks.

Chairman SHELBY. Thank you.

I just want to comment and say that all of your testimony has been compelling today—Ms. Montague, Ms. Whatley, Mr. Jones. We appreciate the good news from Anniston, Alabama. I like their goal there.

Mr. JONES. If you are going to be in town tomorrow night, they are going to dedicate 35 houses, and the families will move in Saturday.

Chairman SHELBY. You called it a "blitz."

Mr. JONES. They started Monday morning, and they are going to move in Saturday.

Chairman SHELBY. And Mr. Rayburn, we appreciate your candor here.

I have a number of questions, and because of time, I would like to submit them for the record, but I want to ask you this question. What would you quickly say would be the single biggest obstacle keeping families from obtaining homeownership outside of income.

Quickly, Ms. Montague.

Ms. MONTAGUE. Downpayment assistance.

Chairman SHELBY. Ms. Whatley.

Ms. WHATLEY. Actually, the availability of affordable homes in many communities.

Chairman SHELBY. She got into that, too; both.

Ms. WHATLEY. Yes.

Chairman SHELBY. Mr. Jones.

Mr. JONES. The availability of land.

Chairman SHELBY. So the family that gave the acreage——

Mr. JONES. That is a huge thing.

Chairman SHELBY. Mr. Rayburn.

Mr. RAYBURN. Credit.

Chairman SHELBY. Thank you.

We appreciate what you are doing. We are going to continue to work with you. We think this hearing today has been beneficial to us as Members and, we think, to everybody.

Senator CARPER. Mr. Chairman.

Chairman SHELBY. Yes, sir.

Senator CARPER. May I ask our first witnesses to the left—is it Ms. "Montag" or "Montague"?

Ms. MONTAGUE. Montague.

Senator CARPER. I apologize. I have been calling you the wrong name all morning here, so please forgive me.

Thank you, Mr. Chairman.

Chairman SHELBY. We thank all of you for participating.

Give my best to Millard.

Thank you. The hearing is adjourned.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

PREPARED STATEMENT OF SENATOR JACK REED

It is appropriate that we are holding this hearing at the beginning of June, which has been declared National Homeownership Month. Homeownership is a cornerstone of the American Dream. It is the chance to set down roots, build equity, and get involved in a community. I want to commend Secretary Martinez for continuing the focus we saw under the Clinton Administration on increasing homeownership opportunities, particularly for minorities.

However, programs like the proposed American Dream Downpayment Fund cannot solve our Nation's affordable housing crisis on their own. Housing is becoming less and less affordable around the country. According to the latest Housing Price Index (HPI) Report from the Office of Federal Housing Enterprise (OFHEO), the average price of a home in the United States during the first quarter of 2003 was 6.48 percent higher than a year ago, almost triple the rate of inflation.

In my own State of Rhode Island, homes appreciated 15.7 percent this past year—the Nation's fastest rate and more than twice that national median of 6.89 percent. Only 216 of the single-family homes currently for sale in the entire State of Rhode Island are considered affordable by our State Housing Finance Agency, meaning a family earning $47,280 or 80 percent of our State's Median Family Income can afford them. This represents only 9 percent of the homes on the market. Rhode Island's homeownership rate fell for the second year in a row to just 59.6 percent in 2002. This is 8.3 percent below the national homeownership rate of 67.9 percent.

As a result, I have several overarching concerns about some of the homeownership initiatives we will be discussing today.

First, downpayment assistance for low-income families is of "little assistance" if they cannot find an affordable home to buy with it.

Second, downpayment assistance is only one rung of achieving homeownership. If some of the lower rungs on the ladder to homeownership are ripped out, such as public housing, Section 8 vouchers, preserving existing affordable housing, stabilizing and revitalizing distressed neighborhoods, and creating new units of affordable housing, very few working families are going to be able to climb up the ladder and achieve the American Dream.

Finally, I am concerned about the vagueness of the Administration's proposal, in particular, the lack of a transparent formula for distributing the downpayment assistance and the lack of local flexibility in determining how the money can be used to expand homeownership.

Of course, that begs the question of why the $200 million in downpayment assistance is not just added to the existing HOME formula. This would allow State and local governments to determine how best to provide homeownership assistance in their communities.

Needless to say, I look forward to today's testimony and hope it can clarify some of my concerns.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Thank you, Mr. Chairman. I am glad that you have called this hearing today on encouraging homeownership. The topic is a priority of mine and one to which I believe that this Committee, and this Congress, should be dedicating a greater proportion of time.

Let me begin by welcoming our witnesses today, HUD Secretary Martinez and the representatives of our second panel. I thank you for being with us today and I look forward to hearing your comments today.

Mr. Chairman, there are a number of challenges in the housing sector today that require Federal attention. Both on the demand supply of housing and on the supply side.

On the demand side, there are still far too many barriers to homeownership. In particular, one of the biggest barriers to homeownership is the upfront costs for first time homebuyers trying to buy a home. According to the Mortgage Bankers Association, typical total costs for downpayment and closing can approach over $9,000. This is an impossible amount to save for those who are working hard to make ends meet.

That is why I recently teamed up with Senator Gordon Smith to introduce our First-Time Homebuyers' Tax Credit Act, S. 1175. Our bill authorizes a one-time tax credit of up to $3,000 for individuals and $6,000 for married couples. This credit is similar to the existing mortgage interest tax deduction in that it creates incentives for people to buy a home.

To be eligible for the credit, taxpayers must be first-time homebuyers who were within the 25 percent tax bracket or lower in the year before they purchase their home ($68,800 for single filers, $98,250 for heads of household, $114,550 for joint returns). There is a dollar-for-dollar phase-out beyond the cap.

Normally, tax credits like this are an after-the-fact benefit. They do little to get people actually into a home. What is particularly innovative and beneficial about the tax credit in this bill, however, is that the taxpayer can either claim the credit in the year after he or she buys a first home or the taxpayer can transfer the credit directly to a lender at closing. The transferred credit would go toward helping with the down payment or closing costs. As mandated in the bill, the lender would receive the money from the government in a timely fashion.

What we are proposing, I believe is pretty bold. Senator Smith and I want to work with our colleagues to send a message to lower and middle income people all over the country that if you are working hard to save up enough to get into that first home, the Federal Government will make a strategic investment in your family—it will offer a hand up.

This is not unlike what we already do through the mortgage interest tax deduction for millions of people who are fortunate enough already to own their own home.

We certainly won't do all the hard work for you. You must be frugal and save and do most of the work yourself, but we, in Congress, understand that it is good for America to enhance homeownership.

We also understand that this investment in working families stimulates the economy. No one can deny that when the First Time Homebuyers' Tax Credit is enacted and used by millions of people, every single time the credit is used, it will stimulate the economy.

Why?

Because it means someone bought a house. And that generates economic activity for multiple small business people—realtors, lenders, house appraisers, inspectors, title insurers, and so on. And there is a ripple of economic activity by the new homeowners as they fix up their new homes and get settled in.

I would like to thank the National Association of Home Builders and Habitat for Humanity today for the support they have offered to the legislation. They join a long list of groups including: the Mortgage Bankers Association of America, the American Bankers Association, America's Community Bankers, Fannie Mae and Freddie Mac, the National Association of Affordable Housing Lenders, and the National Council of La Raza who have all offered their support to this concept of a transferable tax credit.

Mr Chairman, as you know, it is not enough to address the demand side of housing. That is why I am also a strong advocate of increasing the supply of affordable housing. I have teamed up with Senator Smith, again, this time on a tax credit to spur the revitalization of neighborhoods through development tax credits. I know that Senators Santorum and Kerry, among others, have been strong proponents of this concept and I am glad that the Administration supports this as well. We must eliminate the economic mismatches between current market prices and the costs of rehabilitation if we are ever going to see many of our blighted communities reborn. This is as true in Flint and Detroit as it is in Philadelphia or Portland.

There is absolutely no reason that this Senate should fail to pass a development tax credit bill for these challenged neighborhoods. With bipartisan support in Congress and the backing of the White House, I want to work with all of my colleagues to see such a bill enacted into law in the 108th Congress.

Finally, Mr. Chairman, let me just touch briefly on a critical issue related to homeownership and that is abusive mortgage lending practices. With the rapid rise in homeownership over recent years and with record levels of mortgage refinancing—which involve an increasing number of less creditworthy borrowers entering the market—the problems with predatory lending have grown explosively. To address this problem, some have argued that a Federal law is needed. Others would prefer to let States and localities pass antipredatory lending laws.

At this time, there is not yet consensus in Congress on additional legislative remedies. While we may differ in our views of appropriate additional legislative measures to address the problem of predatory lending, I think one thing that all of us can agree on is a strong desire to see current laws more effectively enforced. That is why I am glad that Senator Santorum has joined me in preparing a letter to send to Senate appropriators calling for a doubling of monies at the Federal Trade Commission to enforce antipredatory lending laws. I am glad that the Ranking Member and others have agreed to sign on and I hope still that other Members of this Committee will decide to join us in sending this letter next Monday.

As all of us know, the Federal Trade Commission (FTC) is one of the principal government entities with an enforcement role over predatory lending. The FTC oversees many relevant laws including the Federal Trade Commission Act, the Equal Credit Opportunity Act, the Truth in Lending Act, and the Home Ownership and

Equity Protection Act. I believe that enhanced enforcement would staunch many of these illegal activities and have a chilling effect on future abusive lending practices.

Thank you again, Mr. Chairman, for calling this hearing. I appreciate your leadership on this issue and the leadership of Ranking Member Sarbanes. I look forward to working with all of my colleagues on an aggressive housing agenda to keep the housing sector a bright light in what has been a difficult economy.

PREPARED STATEMENT OF ELIZABETH DOLE

Thank you Mr. Chairman.

I want to thank you and Ranking Member Sarbanes for agreeing to hold this hearing on expanding homeownership opportunities. Increasing homeownership is one of the best ways to help both families and our economy.

This hearing will highlight many statistics with regard to the barriers, needs and status of homeownership in America. However, I believe there is one statistic that truly stands out. Sixty-eight percent of Americans own their own homes. Among white households about seventy-four percent own their own homes; however, minority households average far worse at about forty-seven percent. That is a stunning difference and highlights where our efforts should be focused.

I cannot say enough good things about the positive results that homeownership provides for families. Households that own their own homes have been proven to provide a more stable environment for their children. These children are more apt to do better in school and to become more involved in the community. These families are able to build wealth—many for the first time, thereby helping to secure retirement needs or pay for higher education. Families who own their own homes are more likely to spend the money necessary to properly maintain the home. These positive results have a ripple effect and impact the rest of the community and the economy.

The President and Secretary Martinez are to be applauded for recognizing the importance of homeownership and working to reduce the barriers which have kept many families from realizing this dream. One such proposal before this Committee is the American Dream Downpayment Initiative. This proposal focuses on the difficulties families have in saving enough money for the downpayment on a home. This proposal has my full support, and I look forward to voting for it in this Committee and on the Senate floor. It is my hope that we can all work together to move this important legislation as soon as possible. There are many other barriers to homeownership and many other problems that families face after they purchase their first home. I hope to discuss these issues with our witnesses today, and I look forward to working with you all to expand homeownership opportunities. Thank you.

PREPARED STATEMENT OF SENATOR CHUCK HAGEL

Thank you Mr. Chairman for holding this hearing today on the important and timely issue of Homeownership.

Owning a home is not just the preferred way of life for most Americans; It is "the American dream." For most Americans, their home is their largest asset—their primary source of wealth. It provides a financial cushion to families who can use home equity to invest in things like education and small business opportunities.

Home ownership is not just good for individuals and families—it is also good for the community. It stabilizes neighborhoods. It is a source of pride for the owners, and that translates to community involvement and a safe place for children.

While a record 68 percent of American families do own their home today, there are many more who would if it were not for a few barriers standing in their way. Congress, working with the Administration and the private sector, must do more to educate people on the home-buying process, to provide more downpayment and closing cost assistance to first time homebuyers and to grow home financing options for low and moderate income Americans.

Last year, Secretary Martinez announced the Blueprint for the American Dream in response to the President's call to create 5.5 million new minority homeowners by the year 2010. I have joined my colleagues on this Committee in cosponsoring a number of bills which would advance several elements of that blueprint.

Senator Dorgan and I have also introduced, along with Senator Johnson and others, The New Homestead Act, which would help individuals and families who make a commitment to live and work in rural America to afford a home in their community. It is by helping families establish roots in our rural communities that we will enable small town America to survive. I hope that my colleagues on this Committee will take a look at that bill and help us in our efforts there.

I look forward to hearing from today's panel about the progress that has been made on the Blueprint.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR JON S. CORZINE

Thank you, Mr. Chairman. I commend you for holding this hearing today. I know that we all agree that every American should have access to the tools they need to become homeowners. Homeownership allows families to build equity that will help them build the financial security critical to sending their children to college and achieving a sound retirement.

As you know, homeownership rates in the United States are at an all time high of 68 percent. Despite the significant growth in minority homeownership rates in the 1990's—much of which can be attributed to public-private incentives—the dream of homeownership remains out of reach for too many minorities. In addition to rising housing prices that have quickly outpaced inflation, a lack of wealth and income, discrimination, and a general lack of affordable units contributes to this gap.

It is that last point, Mr. Chairman that I would like to emphasize. We are facing an enormous affordable housing crisis in this country. This crisis is at the root of so many of the issues this Committee has held hearings on. It causes homelessness; it forces families to spend more than 30 percent of their income on housing; and it decreases access to homeownership. We must do more to address this issue.

Mr. Chairman, we cannot expand access to the American homeownership dream, as it were, unless we take critical steps to increase the number of affordable housing units in this country. Earmarking $200 million of the HOME program to provide downpayment assistance to families wanting to buy a home will only go so far when there is no affordable home to buy. As we all know, States can already use their HOME dollars to provide downpayment assistance and many do. However, many States, including New Jersey, also use their HOME funds to assist renters who are unable to afford rental housing and to construct affordable housing units. Certainly, expanding existing downpayment assistance programs is a worthy goal that I support; however, we must not do so at the expense of other critical housing programs.

Mr. Secretary, I have to admit that I am a little confused about the Administration's priorities. If the President truly wants to expand homeownership, then why has he proposed eliminating the HOPE VI Program, a program that has significantly expanded homeownership for low- and moderate-income families? In addition to revitalizing our urban communities and improving our Nation's public housing, the HOPE VI Program has funded the creation of more than 21,000 units of homeownership. At least 3,000 of these units have been sold to families that previously lived in public housing. Mr. Secretary, isn't this the kind of program we should be expanding, not eliminating?

Furthermore, the Administration's proposed cuts to our other vital public and assisted housing programs, including Section 8, will only serve to push those families we want to help achieve self-sufficiency and, hopefully, homeownership further into poverty. Cutting the Public Housing Capital Fund will only serve to deteriorate existing properties, and will likely lead to decreased property values and crime increases. Of course, this Administration has already eliminated the Public Housing Drug Elimination Program (PHDEP), which public housing administrators relied upon to address these problems.

Mr. Chairman and Mr. Secretary, all of these issues are interconnected. While expanding downpayment assistance programs is a laudable goal, we must do more, and we have to start by protecting our existing safety net and homeownership programs, not destroying them.

Thank you.

PREPARED STATEMENT OF MEL MARTINEZ

SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Chairman Shelby, Ranking Member Sarbanes and Distinguished Members of the Committee, I appreciate the Chairman's invitation to appear before you this morning. The Administration welcomes any opportunity to meet with the Members and discuss the many ways in which we are working with the Congress to expand homeownership for America's families.

The fact that June is National Homeownership Month, and a time when we are taking the homeownership message to communities across the country, makes the scheduling of this hearing especially appropriate.

President Bush is focused on helping more families discover for themselves the security and sense of pride that comes with homeownership. This is a long-time commitment of this President that he highlighted during the presidential campaign in his "New Prosperity Initiative." In remarks he gave in Cleveland, Ohio, on April 11 of 2000, then-Governor Bush noted that the concept of "ownership" is central to American life, and that our history has been intertwined with the expansion of homeownership rights since the Nation's earliest days.

He pledged that in the spirit of the Homestead Act of 1862, his Administration would help Americans to own a part of the American Dream.

The President understands that homeownership is a profound and life-changing experience.

For the vast majority of families, homeownership serves as an engine of social mobility and the path to prosperity. Americans see a home not only as shelter, but also as a safe investment, and one that can be leveraged to finance family priorities. In 2001, Americans took $80 billion out of the equity they had accumulated in their homes to make investments in education, consumer goods, and new businesses.

There is no question that homeownership helps families lift themselves into a better quality of life and a more secure future.

But the benefits of building a Nation of homeowners extend well beyond individual families and into their communities. Homeownership creates stakeholders who tend to be active in charities and churches. It inspires civic responsibility. It offers children a stable living environment that influences their personal development in many positive ways—including improving their performance in school. Studies by housing experts show a clear link between an *increase* in homeownership and a decrease in crime rates.

Of course, homeownership also has a powerful impact on the national economy. Where many sectors of the economy performed below expectations over the past 2 years, the housing market has remained extremely strong. In fact, housing helped to cushion many areas of the country from recession, as home sales and refinancings pumped hundreds of billions of dollars into the economy.

But beyond the statistics, increasing homeownership is good public policy. This Administration wants *every* family to benefit from our emphasis on homeownership. This includes reaching out to minorities who sometimes face special obstacles on the road to owning their own homes.

At the end of last year, the national homeownership rate remained at record-high levels. The minority homeownership rate reached a record high as well. But those statistics mask a deep divide—what we call the "homeownership gap." Across the board, minority homeownership is about 20 percentage points below the rate for the population as a whole.

Many minority families find the pathway to homeownership blocked by persistent barriers. These barriers include the inability to come up with enough cash for a down payment, a lack of credit history, or a blemished credit record . . . discrimination, and the unfamiliar terms and unreliable information that are often part of the homebuying process. Minority families often face discrimination in conjunction with or in addition to these other barriers.

President Bush and I consider removing these barriers for all families, including minority families, to be a top priority for HUD, and one that is fundamental to our mission as the Nation's housing agency.

The President launched America's Homeownership Challenge last June and announced his aspirational goal of boosting minority homeownership by 5.5 million families by the end of the decade. In response, HUD created the Blueprint for the American Dream Partnership. Each partner has made specific commitments that will help us reach our goal of dramatically boosting minority homeownership.

One of the ways we are clearing away the barriers to homeownership is by offering new tools and resources to the homeowners of tomorrow.

For example, the American Dream Downpayment Initiative will help make homeownership a reality for 40,000 families. The Initiative is currently moving through the Congress, and we are working with Members to get it passed and signed into law. Congress appropriated $75 million for the American Dream Downpayment Initiative for the current fiscal year.

We have proposed increasing funding for our housing education program to $45 million, which would allow HUD to counsel 250,000 first-time homebuyers next year. Helping families learn about the loan products and services available to them and how to identify and avoid unscrupulous lenders is critical to increasing homeownership.

The Administration is boosting funding for the HOME Investment Partnerships Program by $210 million from the 2003 enacted level, to a total of $2.2 billion in fiscal year 2004. Both HOME and the Community Development Block Grant programs are popular, successful, and locally driven initiatives that communities can tap into to create affordable homeownership opportunities for low-income families.

We are proposing a new Federal Housing Administration mortgage insurance product, designed to create homeownership opportunities for families with poor credit records who are served at a higher cost in the subprime market or not served at all.

Our proposals also include a $1.7 billion Single-Family Affordable Housing Tax Credit to encourage developers and nonprofit organizations to produce affordable homes. The tax credit will make some 100,000 homes available for purchase in low-income neighborhoods.

During the 2000 campaign, the President announced a plan to give another 2 million low-income Americans the opportunity to move into their own homes with help from HUD's Section 8 Housing Choice Voucher Program. We currently allow local housing officials to offer future homebuyers the option of applying their vouchers toward a home mortgage; our fiscal year 2004 budget proposal would "expand the program" by allowing families to also put their vouchers toward a home down payment.

These initiatives reflect just part of what has grown into an Administration-wide commitment to making homeownership an affordable option for every family that seeks it. With our assistance, and the support of the Congress, low-income families across the country who at one time never considered homeownership an option are becoming homeowners today.

We are proud of our accomplishments over the past 2 years, but we do not intend to rest on them. There is much more we plan to do, and by working closely with you, we will continue to open up our communities to new opportunities for growth and prosperity, and encourage more families to seek homeownership and begin traveling the road to prosperity.

PREPARED STATEMENT OF TERRI Y. MONTAGUE

PRESIDENT AND CHIEF OPERATING OFFICER
THE ENTERPRISE FOUNDATION

Thank you, Chairman Shelby, Ranking Member Sarbanes and Committee Members for this opportunity to share with you The Enterprise Foundation's views on expanding homeownership for low-income and minority families.

Enterprise is a national nonprofit organization that puts private capital to work in low-income communities across the country, primarily to produce affordable housing for working families. We have invested nearly $4 billion to produce more than 144,000 affordable homes nationwide. We are currently investing half-a-billion dollars a year in the people, community-based groups and bricks and mortar developments that are revitalizing some of our Nation's most disinvested neighborhoods. Affordable homeownership is an increasingly important activity for Enterprise and our local partners.

Before addressing the subject at hand, a word of thanks is in order. No Federal policy is more effective in producing affordable rental housing than the Low Income Housing Tax Credit (LIHTC). We thank Housing Subcommittee Ranking Member Reed for his efforts to ensure that the recent tax bill did not adversely affect the LIHTC. We are also grateful to Committee Members, Senators Bayh, Chafee, Corzine, Johnson, Sarbanes and Stabenow for expressing their strong support for this critical program during Senate consideration of the bill. We urge all Senators to ensure that any future tax proposals hold harmless the LIHTC and other community development tax incentives, such as the New Markets and Historic Rehabilitation Tax Credits.

We thank the Committee for its interest in the important subject of affordable homeownership. We commend President Bush and Secretary Martinez for their commitment to increasing minority homeownership by 5.5 million families by 2010. We are working with the Administration and many other organizations to help achieve that ambitious goal.

Our testimony addresses four issues: 1) homeownership's importance in revitalizing low-income communities; 2) the need for more affordable for-sale housing in those areas; 3) Federal policies to expand low-income homeownership and community development; and 4) other important elements of a holistic housing policy. Our experience draws from many urban areas, but our testimony particularly addresses our experience in one community: Sandtown-Winchester in Baltimore, Maryland. We also reference recent research that shows that Sandtown's homeownership successes and challenges reflect larger trends and lessons.

Homeownership's Importance in Revitalizing Low-Income Communities

We suspect that the Committee will hear a great deal in connection with this hearing about homeownership's benefits for families, which can include wealth accumulation, greater stability and increased civic engagement. These benefits may be especially pronounced for low-income families. Homeownership also can have important benefits for low-income communities, especially as part of broader revitalization strategies.

Enterprise's experience in Sandtown-Winchester provides a good example. Sandtown is a 72 square block community in West Baltimore that was once one of the most vibrant African American neighborhoods in the city. By the time Enterprise, the City and Sandtown churches and residents began a comprehensive community revitalization initiative in the early 1990's, however, Sandtown had become one of Baltimore's most troubled neighborhoods. All the indicators of distress—inadequate housing, widespread blight, high crime, poor schools, rampant unemployment and drug abuse—were present at alarmingly high levels.

Today, Sandtown is starting to turn around. In the 1990's, Sandtown's homeownership rate more than doubled and property values increased dramatically. Median family incomes rose 22 percent, after accounting for inflation. Unemployment and property vacancies each declined by one-third. In recent years, crime has decreased substantially. Elementary school test scores have improved significantly.

After decades of disinvestment and decay, hope, and new investment, is coming back to Sandtown. Large-scale development of affordable for-sale housing is at the heart of Sandtown's recent progress. Enterprise has developed nearly 400 for-sale homes in the area. Another 200-plus are in the pipeline. We also have provided financing to help Habitat for Humanity build another 200 homes in the neighborhood. Virtually all of these homes have sold to low-income working African American families.

To be sure, Sandtown still faces many daunting challenges. Homeownership, incomes, employment and educational attainment levels are still too low. Crime and addiction are too high. But the progress and momentum in Sandtown is undeniable and homeownership is a big reason why. Researchers from the Johns Hopkins University Institute for Policy Studies concluded:

> This analysis suggests that Sandtown-Winchester's increase in median sales prices between 1990 and 1999 is associated with its comprehensive approach to neighborhood revitalization, in general, and its successful physical capital improvements, in particular. Sandtown's approach centers on public-private-nonprofit partnerships that incorporate—in order of descending importance—physical capital, CDC's [community development corporations], homeownership and social capital. It has succeeded in physical capital development, and in combining homeownership initiatives with the development of social capital through CDC's and other neighborhood-based organizations.[i]

Sandtown is far from the only place where housing investment—homeownership and rental—is helping drive broader neighborhood improvements. In its year-long, comprehensive analysis of housing challenges and solutions, the bipartisan Millennial Housing Commission found:

> Both theory and empirical evidence suggest that when several owners fail to maintain their properties, others nearby follow suit because their neighbors' inaction undermines property values. Rundown and abandoned properties can have a contagious effect that accelerates neighborhood decline.
>
> Replacing or upgrading distressed properties is, therefore, a precondition for neighborhood revitalization. Public investment in housing often triggers private investment that ultimately lifts property values. Although larger economic and social forces can undermine such efforts, recent comprehensive community development projects suggest that concentrated public investment in mixed-income housing can initiate neighborhood reclamation.[ii]

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[i] The Johns Hopkins University Institute for Policy Studies, *Neighborhoods Moving Up: What Baltimore Can Learn From its Own Improving Neighborhoods,* 2001, p. 34.

[ii] Millennial Housing Commission, *Meeting Our Nation's Housing Challenges,* 2002, p. 11.

The Need for More Affordable For-Sale Housing in Low-Income Communities

The magnitude and impact of the homeownership development in Sandtown is especially striking in light of the conditions the community faced as the revitalization initiative began a decade ago. The homeownership rate was less than 11 percent and more than 600 vacant homes in various States of distress blighted the neighborhood. By necessity, large-scale homeownership development was central to the revitalization strategy from the outset.

Other parts of the country face a supply shortage of decent, affordable for-sale housing as well. According to Harvard's Joint Center for Housing Studies and the Brookings Institution:

> Many low-income renter households may be in a position to overcome the wealth and income constraints on buying a home, but will still be constrained by a lack of adequate housing units at an appropriate price in a desirable location. Supply side constraints on homeownership deserve greater attention from researchers and policymakers.
>
> Affordable homes for ownership are being lost to house price inflation and vacancies. . . On net there were about a half-million fewer affordable owner-occupied homes in 1999 than in 1997. The result, based on one set of underwriting assumptions, is that the share of owner-occupied homes affordable to low-income households fell from 47 percent to 44 percent of the stock from 1997 to 1999.
>
> When adjustments for variables that usually affect homeownership are made, the stock of homes plays a significant role in determining homeownership for low-income households. The presence of single-family and new homes contributes to higher homeownership by low-income households. Yet very few nonmobile units are being added to the stock at affordable levels. Policymakers need to recognize the failure of filtering as a mechanism to expand the supply of affordable homes.[iii]

Several years ago, the National Housing Conference's Center for Housing Policy found that between 1997 and 1998, 200,000 working renter families in 17 major metropolitan areas could afford to purchase three-plus-bedroom houses priced between $50,000 and $75,000. But only 30,000 homes in that price range were available in those locations.[iv] Just last month, the Center released a new report on homeownership and rental housing needs in 60 of the Nation's largest housing markets. The report found that families who depend on a teacher or police officer's salary are priced out of homeownership in roughly half those jurisdictions. Families that depend on the salaries of a janitor or retail sales person cannot reasonably afford the median priced home in *any* of those 60 metropolitan areas. (Nurses are shut out in 57 of the 60 areas.) The report notes that these professions are often occupied by people entering the workforce for the first time, perhaps transitioning from welfare, and that they play vital roles in their communities.[v]

Enterprise's experience is that the shortfall of for-sale housing is especially acute in low-income and minority neighborhoods. One of the biggest barriers to expanding the supply of affordable, for-sale homes in many of these communities is that it often costs more to build or rehabilitate housing than market prices will support. This market failure denies low-income people homeownership opportunity and prevents low-income neighborhoods from reaping the broader benefits that often accompany increased homeownership.

As we have seen in Sandtown and elsewhere, the market can work—low-income people will buy in "distressed" communities, to their and the neighborhoods' benefit—if homes are available. We also see in Sandtown, as in many other communities, the need for more homeownership resources. The next major phase of homeownership development has moved slowly largely due to a lack of resources.

Federal Policies to Expand Low-Income Homeownership and Community Development

The largest Federal subsidies for homeownership—the Federal income tax deductions for mortgage interest and property taxes and the capital gains tax exclusion

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[iii] Collins, Crowe and Carliner, "Supply Side Constraints on Low-Income Homeownership," in Retsinas and Belsky, eds., *Low-Income Homeownership: Examining the Unexamined Goal,* 2002, pp. 197–198.

[iv] National Housing Conference Center for Housing Policy, *Housing America's Working Families,* 2000, p. 21.

[v] National Housing Conference Center for Housing Policy, *Paycheck to Paycheck: Wages and the Cost of Housing in America,* 2003, p. 2.

for home sales—overwhelmingly benefit upper income homeowners and more affluent communities. In fiscal year 2003, these provisions cost $110 billion, three-and-a-half times the size of the entire budget for the Department of Housing and Urban Development (HUD).

There are, however, a few Federal initiatives that expand homeownership opportunity for low-income people and help strengthen low-income neighborhoods and the grassroots groups that serve them. Among the most effective existing programs are the following:

The HUD "Section 4" program, which provides operating support and technical assistance to community-based groups through national intermediaries that must leverage at least three dollars of private matching funds for every Federal dollar. Section 4 funds help grassroots groups hire and retain staff, invest in technology, improve management and operations, enhance staff expertise and form new partnerships. Many of the community-based partners Enterprise assists with Section 4 funds are increasing their homeownership activities as a result of Section 4 assistance. Enterprise is requesting that Congress provide $40 million in Section 4 funds for Enterprise and the Local Initiatives Support Corporation to split equally for fiscal year 2004.

The HOME housing block grant, provides flexible funds to States, cities and grassroots groups for homeownership development, repair and downpayment assistance, as well as rental apartment development and tenant rental help. Nearly 60 percent of HOME funds have been used for affordable homeownership, assisting more than 418,000 low-income people.[vi] Enterprise is recommending that Congress fund HOME at $2.9 billion for fiscal year 2004. Enterprise supports the Administration's proposed expansion of the homeownership downpayment set-aside program. We would note that the set-aside is unnecessary, since HOME already allows jurisdictions to provide downpayment assistance. We urge Congress to refrain from enacting any additional set-asides within HOME and to fund existing set-asides only to the extent they do not reduce formula funding for the block grant.

The Treasury Department's Community Development Financial Institutions (CDFI) Fund, leverages private sector support for community-based financial institutions that provide a variety of affordable homeownership development, financing and counseling services, as well as rental housing support. The CDFI Fund is placing priority on expanding homeownership in the current fiscal year. Enterprise is requesting that Congress provide $80 million for the Fund for fiscal year 2004.

The Federal Housing Administration's Asset Control Area initiative, enables local governments and qualified community groups to take abandoned, foreclosed homes off the Federal Government's hands for rehabilitation and resale to buyers in distressed areas. The ACA initiative has the potential to boost low-income and minority homeownership and help stabilize neighborhoods ravaged by large numbers of vacant properties. ACA participants in 15 jurisdictions have been operating under individual agreements with HUD. The Department is currently negotiating new agreements with participants under more uniform criteria. In general, those negotiations have been productive.

Enterprise remains concerned about two issues, however: 1) HUD has been slow in negotiating final agreements, which is threatening the progress of the private-public partnerships that most ACA participants had carefully developed under their prior agreements; and 2) the Department has in some instances applied a narrow interpretation to the flexible statute that limits the program's potential. We and other ACA program participants are disappointed that HUD has not to date allowed ACA participants to sell homes for market value, receive reasonable compensation for development activities and convert a limited portion of multiunit properties into rental housing where necessary. We continue to work with the Department on these issues and will keep the Committee fully informed. We greatly appreciate the strong support Senators Sarbanes and Reed have shown for the ACA program.

In addition to these existing initiatives, Enterprise strongly supports the proposed *Homeownership Tax Credit.* An unusually broad coalition of housing organizations supports the proposal (please see list below). Bipartisan bills have been introduced in the House and Senate to enact the Credit. The Senate bill, S. 875, is sponsored by Senators Kerry and Santorum. We thank Committee Members Allard, Bayh, Crapo, Hagel, Johnson, Sarbanes, Schumer and Stabenow for cosponsoring this bill. We urge the other Committee Members, and all other Senators, to join them.

The Credit is designed to address the market failure mentioned above that shuts out so many low-income families and communities from homeownership opportunity: the gap between development costs and market value of affordable, for-sale housing in low-income areas. The proposal is based on the highly effective Rental Credit

[vi] HUD website (www.hud.gov), "HOME Program National Production Report as of 5/31/03."

(LIHTC) and could do for homeownership what the Rental Credit has done for affordable apartment development. The Homeownership Credit has the same sound principles as the Rental Credit of State administration and flexibility, private sector competition and oversight and a strong role for community-based groups. The same highly efficient system of State administrators, corporate investors and community-based and for-profit developers that have made the Rental Credit so successful would readily embrace and effectively utilize the Homeownership Credit.

In addition to expanding homeownership opportunity for low-income people, the Credit would help stabilize disinvested neighborhoods and contribute to their revitalization. The Credit recognizes the critical role homeownership can play in community development by targeting resources to low-income and economically disadvantaged communities, including rural and Native American areas. The Credit also would have significant economic benefits. The 50,000 homes it would produce each year would generate 122,000 jobs, $4 billion in wages and $2 billion in Federal, State and local revenue annually. For these reasons, the Homeownership Credit is just what Sandtown and so many other urban and rural low-income communities need to help them continue their progress.

Homeownership as Part of a Holistic Housing Policy

We are grateful for this opportunity to share our views on how homeownership can help revitalize low-income communities. We urge Congress to support the policies we have mentioned to help achieve that goal. Our Nation needs more affordable, for-sale housing, especially in neighborhoods that did not share in the recent national prosperity and have been hit hardest by the economic slowdown.

As important as homeownership is, it is only one component of a holistic housing policy that addresses all our housing needs. Public housing, tenant rental assistance and tools to produce more affordable rental apartments are equally important, if not more important. Low- and extremely low-income renters face by far the most acute housing needs. At current funding levels, the programs that produce rental apartments these families can afford can barely keep up with the apartments lost every year to rent increases, abandonment and deterioration—let alone meet chronic and worsening shortages.

As the LIHTC and HOME programs have shown, rental housing development can provide similar community revitalization benefits to homeownership development. Again, Enterprise's Sandtown experience is instructive: hundreds of new rental apartments have complemented the homeownership development and contributed as well to the neighborhood's improvement. Without substantial additional investments in the surrounding community, including decent, affordable rental housing, many homebuyers in low-income areas may not benefit from the stability and wealth building homeownership promises.

Homeownership is not for everyone. Many low-income renters will remain renters by choice. Others will need to rent for a period of time to amass savings, repair credit history and learn the responsibilities of homeownership before they can make their first downpayment. Others may never be ready or able to become homeowners. A holistic housing policy—and a compassionate country—cannot afford to ignore the needs of these families and individuals.

Community Homeownership Credit Coaliton

Coalition Members

America's Community Bankers
Bank of America
CEO's for Cities
Coalition for Indian Housing and Development
Council of Federal Home Loan Banks
Council of State Community Development Agencies
The Enterprise Foundation
Fannie Mae
Federal Home Loan Bank of Pittsburgh
Financial Services Roundtable
Freddie Mac
Habitat for Humanity International
Housing Assistance Council
The Housing Partnership Network
Local Initiatives Support Corporation
Manufactured Housing Institute
McAuley Institute
Mortgage Bankers Association of America
National Association of Affordable Housing Lenders

National Association of Counties
National Association of Home Builders
National Association of Local Housing Finance Agencies
National Association of Real Estate Brokers
National Association of Realtors
National Coalition for Asian Pacific American Community Development
National Cooperative Bank/NCB Development Corporation
National Community Development Association
National Congress for Community Economic Development
National Council of La Raza
National Council of State Housing Agencies
National Hispanic Housing Council
National Housing Conference
National League of Cities
National Neighborhood Housing Network
National Rural Housing Coalition
National Urban League
Neighborhood Reinvestment Corporation
Stand Up for Rural America
United Way of America
U.S. Conference of Mayors

PREPARED STATEMENT OF CATHY WHATLEY

PRESIDENT

THE NATIONAL ASSOCIATION OF REALTORS

On behalf of more than 900,000 Members of the NATIONAL ASSOCIATION OF REALTORS®, we are pleased to submit this testimony promoting homeownership and housing opportunities. The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of housing industry professionals committed to developing and preserving the Nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective Federal housing programs and we work diligently with the Committee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

We commend the Committee for its continuing efforts on behalf of American families who need and desire affordable housing opportunities. Even today, where we have seen the greatest boom in homeownership rates, many working families are not able to find decent affordable housing. This hearing is very timely, as June is National Homeownership Month, where we recognize the value of having all citizens reach the American Dream. The NATIONAL ASSOCIATION OF REALTORS® (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.

As America's greatest tangible asset, real estate plays a critical role in our Nation's economy. Home sales and mortgage originations have set two successive record-breaking years in 2001 and 2002. Directly and indirectly, the housing sector has been instrumental in keeping the overall national economy afloat, contributing 68 percent of the U.S. economic growth in the past 2 years. The construction of new homes, value added contributions of REALTORS®, and mortgage banking activity all directly add to economic output, job creation, and income generation. Given the stronger than expected home sales activity so far this year, we predict that new home sales will set a historic record in 2003.

As you can see, the current system of our real estate market is making substantial contributions to our Nation's economic well-being. That is why the National Association of REALTORS® opposes tampering with our real estate system. Allowing financial holding companies and subsidiary national banks to engage in real estate brokerage and management could put the safety and soundness of the U.S. economy at risk. We oppose such an untested regulation. Serving as the pillar of our Nation's economy in 2001 and 2002, our current system of real estate commerce is poised to do so again in 2003.

Achieving the American dream increases financial stability for American families as well. Homeownership is the primary source of a household's net worth and the fundamental first step toward accumulating personal wealth. At the urging of Federal Reserve Chairman Alan Greenspan, in 2001 NAR examined the wealth effect of housing and determined that home equity is the largest source of wealth for 3 out 4 homeowners. Additionally, our research determined that gains realized by homeowners from the sale of their homes average $30,000–$35,000, and between 76 and 85 percent of those gains are reinvested for the next home purchase.

As we look forward, change is on the horizon that challenges Congress, the Administration and the real estate industry to step forward and collectively produce favorable and responsible public policies that continue to promote homeownership, provide real estate investment opportunities and protect the free market system to further America's growth and prosperity.

For example, our U.S. population will continue to expand, reaching 310 million by 2010 and 340 million by 2020, supporting strong housing demand. In each year of this new decade, we anticipate between 1.1 million and 2.1 million new households will form. Baby Boomers, born between 1946 and 1964, will be the prime market for trade-up, upscale and vacation homes. Their children will be the main source of future homeownership growth, particularly as they begin looking for starter homes after 2010. In fact, we expect 7.6 million people between the age of 25–34, and 6.7 million aged 35–44, will represent the greatest growth in homeownership through 2010. Because of the expected increases in population, we believe homeownership will surpass 70 percent by 2010.

But, the biggest source of household growth in this decade will come from minorities and immigrants. Very simply, minorities will account for 64 percent of all new households. Between 1993 and 2000, minorities accounted for 44 percent of homeownership growth while accounting for 25 percent of all households. Today, an immigrant or a first-generation American heads one in five U.S. households. By 2020, the number of minority households will grow to over 41 million. The creation of these additional households will require more home construction as well as favorable economic conditions to lure potential homebuyers. The real estate industry and our Federal policymakers have a responsibility and obligation to ensure these groups are not ignored in their quests for housing opportunities.

Chairman Shelby, and Members of the Committee, this is why the National Association of REALTORS® is committed to ensuring that our industry is positioned to expand and deliver broader housing opportunities benefiting all Americans. We have launched a new Housing Opportunity Program aimed at making a commitment and sharing responsibility for the health and well-being of our communities nationwide. Soaring housing values have made the housing sector the brightest light in a gloomy economy. But, it has also put affordable housing beyond the reach of millions of American families. Today's housing costs are dividing America into two Nations, one of "housing haves"—families that purchased property before the price explosion or who can afford high prices—and another of "housing have nots," families who must scale down their expectations and make lifestyle sacrifices to afford adequate shelter.

Not only is the NATIONAL ASSOCIATION OF REALTORS® addressing the problem in a comprehensive manner, but I have challenged each of the REALTORS® organization's 1539 local and State boards and associations to develop their own affordable housing project or housing opportunity response. Already, quite a few have taken steps to make a difference and make the American dream a reality in their communities. For example, the REALTORS® Association of Mobile, Alabama requires that all homes for sale in the Mobile area have listing information available in about 10 different languages. This assists immigrants and non-English speaking minorities in purchasing a home. In Maryland, a number of local REALTOR® associations, including in Anne Arundel County, Howard County, Prince George's County, and the Greater Baltimore Board of REALTORS® have partnered with Freddie Mac to develop CreditSmart℠, a credit education workshop. REALTOR® instructors teach the course to renters, homebuyers, students, and others, on how to manage critical money skills. Obtaining and keeping good credit is an essential step in buying a home, and this program gets people off on the right foot.

Mr. Chairman, as you know, homeownership rates for minorities lag far behind that of white families. We applaud the President's initiative to increase minority homeownership by 5.5 million over the next 10 years. REALTORS® are doing their part to make this goal a reality. The National Association of REALTORS® is an original partner in the White House initiative, and are proud to be a party of the *WOW (With Ownership Wealth)* program of the Congressional Black Caucus Foundation. In addition, our REALTORS® At Home with Diversity® program provides real estate agents with training tools which help develop and expand their outreach to growing minority and immigrant markets, markets in which two thirds of our Nation's households will come from this decade. To date, we have certified almost 10,000 REALTORS® in this program, which one participant described by saying, "My attitude toward clients from other cultures has changed dramatically. The best way I know to describe it is that I lost the 'fear' of dealing with other cultures."

In April, the NAR, along with The National Association of Real Estate Brokers, the National Association of Hispanic Real Estate Professionals and the Asian Real Estate Association of America entered into a historic partnership with HUD to promote fair housing and increase minority homeownership. This partnership builds upon our work with the White House and the HOPE Awards, which we jointly sponsor with these and several other minority real estate organizations.

The HOPE (Home Ownership Participation for Everyone) Awards recognizes up to seven organizations and individuals who are making outstanding contributions to increasing minority homeownership. We have honored two organizations for their work advancing public policies to promote minority homeownership. In 2002, the Greater Baltimore Board of Realtors was recognized for its public campaign to educate residents and policy leaders in Baltimore regarding abusive real estate and lending practices. This year, the brokerage award went to Emily Moerdomo Fu of RE/MAX Greater Atlanta International. Minority homeownership always has been the focus of Emily Fu's company, which she located in Atlanta's Asian Square Shopping Center, where the Asian and Hispanic communities come together. Her staff speaks 16 different languages and comes from 19 different cultural backgrounds. The brokerage provides a full array of services and since 1990 has helped thousands of minority families close on their first homes.

We are also working on a number of research products to review differences in homeowership rates. We have commissioned a study to evaluate the reasons for the homeownership gap between whites and minorities. We have completed the first phase of this study and expect to conclude our research early next year. We welcome the opportunity to share the results of this report with the Committee at that time.

As part of our commitment to President Bush's Homeownership Initiative, The NATIONAL ASSOCIATION OF REALTORS® is convening the National Summit on Housing Opportunities on September 25, 2003 in Washington, DC to build a consensus for action. The Summit will bring together the country's housing leadership to consider the future of the Nation's affordable housing opportunities and how to elevate affordable housing on the national policy agenda. A cross section of the Nation's foremost housing and community development leaders will examine the critical questions that will determine the future shape of the American dream. I would like to invite you Mr. Chairman, and the Members of this Committee, to join us at this special event.

In addition, we have an ongoing partnership with Habitat for Humanity. We are a national underwriter of the Congress Building America program. This program is designed to highlight the importance of volunteerism, produce new affordable single-family homes, and strengthen the network for affordable housing support. Also since 2001 we have agreed to build a new Habitat home in each of the cities where we hold our Annual Convention. We are currently working on a new home, in San Francisco, the site of our 2003 Annual Convention.

Clearly, those of us involved in the process of helping people achieve the American dream of homeownership can and must find more ways to encourage innovation and inspire investment in housing. REALTORS®, particularly, are in a unique position to parlay the need for affordable housing, both in the rental and homeownership sectors of the market, into something tangible, concrete and livable.

The NATIONAL ASSOCIATION OF REALTORS® believes now is the time to address new and innovative approaches to stimulating homeownership opportunities. Although housing remains strong in our Nation's economy and has helped to increase our Nation's homeownership rate to a record 68 percent, many deserving American families continue to face obstacles in their quest for the American dream of owning a home.

Consider the following:

- One out of every seven American families—13 million families—has critical housing needs;
- More than 7.5 million renters nationwide face critical housing needs, either living in substandard properties or paying more than 50 percent of their income toward housing;
- Six million families—nearly half of those with critical housing needs—earn at least some, if not all, of their income from working;
- Most of these people earn less than half of the median income for their area. They do not receive government assistance, and they pay more than half of their income for housing or live in bad conditions;
- In 24 States, a household with two full-time minimum wage earners cannot afford a 2-bedroom apartment without spending more than 30 percent of their income;

- Many who lack decent affordable housing are not what most of us would consider poor. Among those hardest hit are schoolteachers, police officers and municipal workers;
- Our Nation's housing shortage is a major contributor to sprawl, forcing people to move farther and farther away from the urban core to find homes they can afford;
- Nationwide, the inventory of affordable homes has shrunk to the lowest level in a decade;
- Statistics show that the waiting list for public housing has grown to approximately 1 million households with wait times as long as 10 years in some cities, while the average wait for a rental voucher in some cities is 5 years;
- Finally, there are approximately 270,000 households with disabled Members on waiting lists for Federal housing assistance.

As we seek to address critical challenges affecting housing affordability, minority homeownership, housing supply and community revitalization, REALTORS® stand ready to work with Congress to enact favorable real estate policies that benefit our Nation. To that end, we offer our support for a number of legislative and regulatory proposals that serve as a viable solution to the challenge of increasing homeownership opportunities and we respectfully encourage Congress to consider these additional initiatives to inspire investment in housing, share responsibility for our communities and expand housing opportunities—rental as well as ownership—for all Americans.

Support and Enact S. 811—American Dream Downpayment

With one out of seven families in the Nation facing critical housing needs and low- and moderate-income working families virtually shut out of the housing purchase market, the NATIONAL ASSOCIATION OF REALTORS® commends Senator Wayne Allard (R–CO) for introducing S. 811, The American Dream Downpayment Act. It will provide assistance permitting up to 40,000 families a year to buy their first home. The initiative would provide grants to States and local governments under the Department of Housing and Urban Development's HOME Investment Partnership program. Enacted in 1992, the HOME program has successfully helped expand the supply of decent, affordable housing for deserving families by providing funds to communities to address housing shortages and needs.

The NATIONAL ASSOCIATION OF REALTORS® has long recognized that the initial accumulation of cash remains the most challenging hurdle for many prospective homebuyers. We wholeheartedly support legislation that reduces homebuying costs and helps people achieve the American dream of homeownership. S. 811 is good, sound legislation that will not only stimulate new housing opportunities but will also help to sustain the momentum in our Nation's housing boom.

Support and Enact S. 875—Renewing The Dream Tax Credit Act

Although this bill is not under the jurisdiction of this Committee, we call to your attention S. 875. It provides a new, innovative tool for increasing the supply of affordable housing. Nearly half of the Members of this Committee have cosponsored the bill, and Senator Santorum (R–PA) has joined Senator Kerry (D–MA) as the primary sponsor. This legislation builds on a framework provided in each Bush Administration budget since 2001. It provides a substantial tax credit for developers and investors who construct or rehabilitate housing for low- and moderate-income families to purchase. The credit is needed because in lower-income distressed and gentrifying urban neighborhoods the cost of building and rehabilitating homes far exceeds the prices at which these homes can be sold to lower income families. Similarly, older or inner ring suburbs that need revitalization and updating would qualify for the credit.

The homeownership credit will fill the gap between development costs and home prices, promoting home purchase and halting further neighborhood deterioration. In gentrifying neighborhoods the credit can provide affordability to existing lower-income residents, preventing displacement. And, in rural communities and on Indian reservations the credit will attract development investment and enhance housing capacity.

Several Senators, including most recently Senators Smith (R–OR) and Stabenow (D–MI), have introduced a variety of tax credits and incentives directed at buyers. NAR welcomes all ideas and solutions for increasing homeownership. We note, however, that in today's market, the most serious affordable housing issue is the intense shortage of entry-level housing. The marketplace has developed a host of products to assist prospective purchasers qualify for a mortgage. These products, combined with enactment of the American Dream Downpayment grants, make a wide variety of financial support available to buyers. More and more frequently, however, these individuals who have qualified for different types of mortgages are simply unable to locate homes that are affordable, appropriate and accessible to jobs. Accordingly, NAR is presently focusing its advocacy efforts on increasing that supply of housing. We are focusing our advocacy efforts on securing the enactment of S. 875 so that more housing alternatives will be available for purchase.

FHA Subprime Mortgage Product

The President's fiscal year 2004 Budget request proposed a new FHA mortgage product. This would be a sub-prime loan to borrowers who have poor credit. Borrowers would be required to meet debt, income, and repayment ability standards, but are not required to meet traditional underwriting standards due to their credit rating. The loans would have a higher premium, but after 24 months of on-time payments, the premium would be reduced. HUD estimates that an estimated 62,000 credit-impaired homebuyers would receive financing in the first year. The program is also expected to generate $7.5 billion annually in additional insurance volume for FHA. We support the development of such a product, which would expand home purchase opportunities for more borrowers. Homebuyers with impaired credit are customarily at risk for predatory lending. We believe an FHA loan of this type would protect these borrowers, and offer them more opportunities for home purchase without subjecting them to a lifetime of higher premiums. We welcome the opportunity to work with the Administration and Congress to develop an FHA subprime loan product.

Property/Casualty Insurance

Property casualty coverage is an underwriting requirement for all home mortgages. In reaction to rising claims and losses, insurers have recently taken a number of steps to limit their risk. These steps include limiting the number of new policies written, increasing premiums, instituting new policy exclusions for some hazard claims and tightening their underwriting criteria for both borrowers and properties. Insurers now use insurance scores and claims databases to underwrite insurance applications. An insurance score is a credit-based statistical analysis of a consumer's likelihood of filing an insurance claim within a given period of time in the future. According to the insurance industry, studies have shown a correlation between a consumer's financial history and his/her future insurance loss potential. Thus, insurance companies believe the use of credit helps to underwrite an applicant at a cost that reflects their specific risk. The result of this is that homebuyers with impaired credit could find themselves in a situation where they can qualify for a loan product, but not qualify for property casualty insurance, thus rendering them unable to purchase a home. We encourage Congress to hold hearings on this important issue to review the implications of insurance scoring on prospective homebuyers and homeowners.

Amend Section 214 of the National Housing Act

The median price of an existing, single-family detached home in Los Angeles during 2002 was $290,000. In San Francisco that number is $530,900. In the New York Metropolitan area the median home price was $328,000. The current FHA maximum high-cost mortgage insurance limit is $280,749, meaning that for many working families—teachers, police officers, firefighters—FHA is not a useful homeownership tool. We strongly support amending Section 214 of the National Housing Act to add other States to the list of high cost areas, permitting FHA mortgage limits to be adjusted up to 150 percent of the statutory ceiling.

When Congress authorized Section 214 of the National Housing Act, it did so upon finding that higher costs prevailed in Alaska, Guam, Hawaii and the Virgin Islands because it was not feasible to construct dwellings without sacrificing sound standards of construction, design or livability. As a result, the Secretary of HUD was given authority to prescribe a higher maximum for the principal obligation of mortgages insured covering property in these areas. Today, many cities and States have housing costs that are higher than these designated high cost areas. We therefore believe it is appropriate for Congress to amend the list of areas where the maximum mortgage amount may be adjusted upward.

In addition, under the conventional market the secondary market conforming loan limits have not kept pace in the same high cost areas. In some jurisdictions, area median home values far outstrip the conforming loan limit. The economic dynamics that lead to the designation of the current high costs States and jurisdictions have not been revised in nearly 30 years. We urge Congress to reexamine the current system of GSE loan limits, and recognize that Alaska and Hawaii are not the only areas that require higher loan limits to provide affordability benefits conferred by the secondary market.

Creation of Hybrid Adjustable Rate Mortgages

The NATIONAL ASSOCIATION OF REALTORS® strongly supports legislation passed in the 107th Congress creating a series of hybrid FHA adjustable rate mortgages (ARM's). These new products will help close the homeownership gap for the majority of first-time, low-income and minority households who need FHA insurance to qualify for homeownership. The new ARM products will provide borrowers with the security of fixed-rate mortgages. By combining elements of a fixed-rate mortgage and a traditional 1 year ARM, the new products will serve as a convenient and affordable tool for FHA homebuyers seeking a hedge against any potential rise in the cost of traditional fixed-rate mortgages. Additionally, the ARM products will lessen consumer worries stemming from the initial "teaser" rates of traditional ARM's, which customarily convert to a higher interest rate after the first adjustment. With a fixed interest rate period of at least 3 years, the users will experience less "payment shock" offering homebuyers the opportunity to save money during the early years of the mortgage. We applaud the Administration for acting quickly in developing this new product.

However, the enacting legislation capped the first interest rate adjustment for 3/1 and 5/1 hybrid ARM's at 1 percent. A maximum 1 percent increase in the interest rate at the time of the first rate adjustment for a 5/1 hybrid ARM does not offer sufficient interest rate flexibility for a lender to offer this type of ARM product at a lower interest rate than a traditional 30-year fixed rate mortgage. As a result, FHA borrowers are not afforded the benefit of a hybrid ARM loan that features a starting interest rate lower than a 30-year fixed rate mortgage. We hope to work with the Committee and the Administration to develop a technical correction to make all FHA ARM products a much more available, affordable alternative for homebuyers.

Preservation of the 203k Rehabilitation Program

The 203(k) program is the primary Federal Housing Administration (FHA) program for the rehabilitation and repair of single-family properties. Section 203(k) loan insurance enables homebuyers and homeowners to finance both the purchase (or refinance) of a house and the cost of its rehabilitation through a single mortgage.

NAR supports the current FHA 203(k) program as viable source for expanding homeownership and revitalizing neighborhoods. The need for this program to remain as Congress intended is as real today as it was when the program was created in the 1960's. The lack of affordable housing and reasonable housing opportunities is still an important factor in the lives of many people, especially minorities, immigrants, seniors, the disabled and the homeless. Without affordable and available housing opportunities, neighborhoods decline, families are stressed, jobs go unfilled and the quality of life deteriorates for all. The 203(k) program has allowed many lenders over the years to partner with State and local housing agencies and nonprofit organizations to rehabilitate properties and revitalize communities. We urge the Committee to preserve this important and vital program.

In closing, the NATIONAL ASSOCIATION OF REALTORS® appreciates the opportunity to share its viewpoints regarding important legislation before the Committee that promotes the dream of homeownership through downpayment assistance. We applaud the Committee for its leadership and commitment in stimulating housing opportunities nationwide, and we stand ready to work with the Committee in fashioning legislation that helps deserving American families fulfill their housing needs.

PREPARED STATEMENT OF THOMAS L. JONES

VICE PRESIDENT

HABITAT FOR HUMANITY INTERNATIONAL

Thank you, Chairman Shelby, Senator Sarbanes and Members of the Committee for this opportunity to discuss expanding affordable homeownership in our country. I am Tom Jones, Vice President of Habitat for Humanity International (HFHI) and Managing Director of its Washington Office for the past eleven years. The Washington Office is a branch of the executive offices of Habitat for Humanity International, located in Americus, Georgia. The Washington Office serves as Habitat for Humanity International's presence in the Nation's capital. We are privileged to represent Habitat for Humanity International with Congress and Administration, professional and industry groups, NGO's, international groups, embassies, other nonprofits, labor unions, business corporations, and others.

On behalf of Habitat for Humanity International, I am deeply grateful for the opportunity to testify before the Committee. The Members of this Committee continue to demonstrate their commitment to expanding housing opportunities for all persons by passing meaningful legislation and by holding hearings, such as this one—during National Homeownership Month—to highlight affordable homeownership as one of the single most important tools that a family can use to improve their quality of life and build wealth.

Just last week, Habitat for Humanity was honored to be joined by Secretary Martinez and many of you and your colleagues to kick-off National Homeownership Month by announcing our new, National initiative designed to offer Members of Congress an opportunity to have hands-on experiences with families around the country seeking to build their dreams through the "self-help" model of homeownership. The "*Congress Building America*" program is a partnership between Habitat for Humanity, HUD, the U.S. Congress, and national corporate and nonprofit sponsors who will join forces with local Habitat affiliates to construct hundreds of affordable single-family homes. This initiative—modeled on the highly successful "*The Houses That Congress Built*" and "*The Houses The Senate Built*" in which many of you recently participated—is supported by congressional resolutions, already passed in the Senate and soon to be passed by the House. These resolutions express the sense of Congress in support of "*Congress Building America*" and increased access to affordable homeownership opportunities. Members of Congress are encouraged to participate in "*Congress Building America*" events with Habitat homeowner families and local Habitat affiliates in their districts or States during the 108th and the 109th sessions of Congress. We are confident that this partnership with Congress will strengthen the network of housing supporters, place the issue of affordable housing at the forefront of the Nation's social agenda, highlight the importance of volunteerism, and raise public awareness that access to affordable, decent and safe housing is an opportunity every person and family should have.

Habitat for Humanity has spent the past twenty-seven years building affordable homes for homeownership with families who cannot qualify for mortgages in the conventional market. Home construction is supported by private donations, government partnerships for seed monies for land and infrastructure development, volunteer labor and homeowner's "sweat equity." Habitat homes are sold for no-profit and financed by zero-interest, long-term mortgages that each family can afford. The average Habitat house selling price in the United States was $51,219 in 2002. We have now built nearly 150,000 homes worldwide, and are working to complete another 50,000 homes by 2005, using 1,671 affiliates in all fifty States and over 500 international affiliates in 87 countries worldwide.

Our homeowner families are typically first-time homebuyers who earn wages below 50 percent of the area median. Just over 71 percent of Habitat homeowners are minority and almost half are single parents raising school-aged children. Homeowners contribute 250–500 hours of their own labor as "sweat-equity" in the building of their homes and other Habitat homes. By partnering with Habitat, families are able to move from substandard, deteriorating, overcrowded, and unsafe housing, sometimes even homelessness, into their very own homes which they purchase with an affordable mortgage and build with their own hands.

The success of Habitat for Humanity in creating homeownership opportunities for thousands of Americans who would otherwise never have the chance to own their own home is, in part, due to the generous support of Congress and the Administration. Since 1996, Congress has appropriated funding for the Capacity Building for Habitat for Humanity program, part of the Section 4 Capacity Building funds that benefit other housing and community development organizations, and the Self-Help Homeownership Opportunity Program, commonly known as SHOP.

Capacity Building for Community-Based Housing Groups

Capacity Building assistance is the key to increasing the organizational strength of community-based nonprofits. The Capacity Building for Habitat for Humanity program, as part of Section 4 funds which benefit the notable groups of LISC and the Enterprise Foundation, enables Habitat affiliates to improve communities on an even more significant scale by jumpstarting house production. Habitat affiliates essentially operate as local Community Development Corporations, with their own locally elected board and individual 501-c-3 nonprofit statuses. Many affiliates have no paid staff and must rely on the good will and hard work of volunteers. Thus the challenge for Habitat for Humanity is to provide affiliates with technical assistance, training, information, and access to new technology.

The Capacity Building for Habitat for Humanity program, in its sixth year of funding, increases the capacity of our affiliates to leverage outside funding sources, assists in the development and implementation of comprehensive training, brings technical assistance closer to affiliates, and creates new, innovative programs. More specifically, our Capacity Building funds have been used to:

- Provide local volunteers with the skills, training, and knowledge for developing resources through fundraising and securing gifts-in-kind from the private sector—including faith-based organizations, businesses, foundations, civic clubs, labor unions, individuals, and others;
- Foster new local, regional, and State official partnerships with organizations and groups such as college and university campus chapters, faith-based groups, civic clubs, prisons, professional groups, including realtors, bankers, home builders, local government, and labor unions to enhance the productivity of local affiliates;
- Recruit and train local volunteers in communication skills and in ways to use media opportunities to raise public awareness to eliminate substandard housing and to provide opportunities for every American to achieve the dream of homeownership;
- Recruit and provide development opportunities to persons for local board membership who have the leadership skills and the diversity needed to pursue the mission of increasing affordable homeownership at the local level;
- Provide funding on a diminishing basis for affiliates to hire first time staff or staff for new positions that contribute to the affiliate's growth, so that more people are working at the local level to make housing happen;
- Provide training opportunities via electronic, web-based communication targeted at securing resources, understanding new methods of construction, discovering sources for training and technical advancement, etc;
- Focus efforts on the special housing needs and challenges in rural areas, Native American Indian communities, the Colonias, and other populations traditionally underserved by current housing programs and resources.

Within the context of regulations established for Capacity Building for Habitat for Humanity funds, HFHI also conducts training and development of affiliates at the local level, working with groups of 30–40 affiliates through its affiliate support system; at the State level in all fifty States; through its seven regional offices; and nationally. The program includes conferences, training events, specialized technical assistance instruction, and provision of leadership at every possible level. Because many Habitat affiliates are located in rural locations, a major focus is on the unique rural needs for training and technical assistance. Likewise, special focus is made on training and assistance for crucial urban areas where housing needs are so great and which present unique challenges, calling for specialized training and technical assistance.

The success of the Capacity Building for Habitat for Humanity program is measured by the increase in numbers of families housed. In the first two rounds of the Capacity Building grant program, 118 Habitat affiliates built 3,336 homes over the course of the three-year grants—52 percent more houses than they built in the 3 years prior to receiving the grant. In addition, affiliates must match every Capacity Building dollar with three dollars of private, nongovernmental funds and increase their building capacity by a minimum of 15 percent. This requirement has also been far surpassed. It is our hope that Congress will appropriate $15 million for the Capacity Building for Habitat for Humanity program, as it is crucial to increasing the building efforts of our local affiliates.

Self-Help Homeownership Opportunity Program (SHOP)

The Self-Help Homeownership Opportunity Program (SHOP) was created by Congress in 1996 for the purpose of alleviating one of the largest obstacles faced by self-help housing developers in the production of affordable housing—the high cost of acquiring land and developing infrastructure before house construction even begins. SHOP funds are used exclusively for this purpose and have proven to be instrumental in jumpstarting affordable home building programs among self-help housing developers. The success and impact of the SHOP program is measured by numbers of homes produced: with the inclusion of the fiscal year 2002 awards, SHOP funds will result in more than 9,000 new Habitat homes, changing the lives of over 34,000 Americans. This is an extraordinary accomplishment when one considers that for every $10,000 SHOP grant, on average, one home must be constructed, requiring additional resources of 4 to 10 times the amount of the initial investment to be raised in the private sector.

HUD's SHOP grants are competitively awarded based upon an organization's experience in managing a sweat-equity program, a grantee's community needs, the capacity to generate other sources of funding and the soundness of its program design. Groups compete annually for SHOP funds, designated solely for expenses related to acquiring and developing land for building homes that sell at costs below the prevailing market rates. SHOP funds can be used for land and infrastructure expenses such as streets, utilities, water and sewer connections, and for environmental clean up. SHOP families invest 300+ hours in sweat equity—although some families invest hundreds of additional hours—and must earn below 80 percent of the area median income.

SHOP funds have been used to support the work of self-help housing organizations in every State, resulting in the development of thousands of affordable homes. The labor of volunteers and partner families, efficient building methods, modest house sizes and a zero- or low-interest loan makes it affordable for low-income families to purchase a home of their own.

The SHOP program is an important element of the Administration's national homeownership strategy, as it not only expands the ranks of low-income and minority homeowners, it requires the personal contribution of its recipients, increases volunteerism and community participation, and efficiently utilizes Federal dollars by requiring the amount of the initial investment to be significantly leveraged.

Habitat for Humanity, along with the other large user of SHOP funds—the Housing Assistance Council—believes that SHOP will be even more effective if the amount of the average award per house is increased from $10,000 to $15,000 to more accurately reflect the costs of land and infrastructure development. Nationally, the combined average of land and infrastructure expenses exceeds $21,000 for homes built by both Habitat for Humanity and the Housing Assistance Council. This amount must be raised by affiliates before house construction can even begin. Both of our organizations strongly believe this change will make SHOP even more competitive and attractive to affiliates and other self-help housing groups, who will work even harder to find the additional private resources necessary to pursue their building programs.

Single-Family Homeownership Tax Credit

Habitat for Humanity International also strongly supports the Administration's proposal to increase homeownership and affordable housing production through a single-family homeownership tax credit, modeled after the highly successful Low-Income Housing Tax Credit. The proposed credit of up to 50 percent for the costs of constructing new homes for homeownership or rehabilitating existing properties for families in low-income urban and rural neighborhoods will enable our local affiliates and other housing developers to bridge the gap between the cost of developing affordable housing and the price that low-income homebuyers can pay for a home.

The proposed homeownership tax credit legislation will create incentives for affordable housing development and infuse new resources into areas where the costs of construction and rehabilitation places homes beyond the reach of low- and moderate-income families. The current legislative proposals in Congress are structured to generate the resources sufficient to cover the gap between the cost of development and the price at which a home can be sold to an eligible buyer, resulting in the construction of more affordable housing and the strengthening of families and the communities in which they live.

Habitat for Humanity International specifically supports two tax credit bills, S. 875 and H.R. 839, as both provide for a 10 percent set aside for qualified nonprofits. This provision, also included in last year's H.R. 5052 and S. 3126, will help ensure that nonprofits, like HFHI and other community and faith-based organizations, will be competitive applicants during the credit allocation process. A nonprofit set-aside—as successfully demonstrated in the current rental credit and HOME programs—has empowered nonprofit builders, often with fewer resources and serving lower income families, to be competitive for tax credits with their for-profit counterparts. Modest set-asides are established elements in the country's strongest housing programs for low-income families and encourage a "level playing field" for nonprofits.

This is especially important for many other faith-based and community organizations who are often deeply rooted in communities and are particularly committed to providing housing for people with special needs—including the homeless, elderly and disabled. Many of these groups have proven track records of successful housing development in blighted urban and rural areas, often seen as unprofitable ventures for the for-profit sector. In fact, faith-based and community organizations are sometimes the only providers of affordable housing in such areas. A 10 percent set-aside will help ensure that the contributions of faith-based and community organizations in affordable housing production and related supportive services will continue to enhance the Federal Government's commitment to provide adequate housing for its citizens.

In conclusion, Habitat for Humanity believes that now more than ever, during this period in our country when homeownership rates are the highest in history, that the government should invest its resources in those segments of our population that have been left behind and left out of the financial mainstream. This country has the resources to adequately house the millions of Americans living in overcrowded, substandard and unaffordable conditions, but no one organization by itself can eradicate substandard housing. The solution lies in collaboration, with all sectors of society working together, including faith-based and community organizations.

I would encourage Congress to strengthen its resolve to protect the least among us and preserve funding for affordable rental and homeownership opportunities, education, healthcare and other social services at precisely the time when it is needed most. Healthy neighborhoods require HUD's investment in quality housing—rental and homeownership. Failure to maintain a range of affordable housing options will create obstacles for families seeking to become homeowners in the future. As you review the funding proposals for fiscal year04 and other related housing legislation, it our hope that you would support additional resources to enable low-income families to move from often overpriced, inadequate rental housing into affordable homeownership and continue your support of organizations, such as Habitat for Humanity, that help make the dream of affordable homeownership a reality for thousands of families each year.

PREPARED STATEMENT OF JAMES R. RAYBURN

FIRST VICE PRESIDENT
NATIONAL ASSOCIATION OF HOME BUILDERS

Introduction

Thank you Mr. Chairman for the opportunity to testify before the Committee on Banking, Housing and Urban Affairs on homeownership barriers and solutions. I am Bobby Rayburn, a home builder and developer from Jackson, Mississippi. My company, Rayburn Associates, has constructed more than 3,000 single and multi-family homes. Expanding homeownership opportunities is, and has been, a major focus of my 30 years in home building. I also serve as the 2003 First Vice President of the 211,000 member National Association of Home Builders (NAHB), which I am here to represent today. NAHB represents more than 800 State and local home builders associations across the country, and NAHB members will build approximately 80 percent of the nearly 1.7 million new housing units that are projected for construction in 2003.

Homeownership is the preferred housing option for most Americans. Surveys consistently put the desire to own one's home at the top of the list of life preferences. The latest figures from the Census Bureau confirm that many have been able to accomplish that dream: 68 percent of all households do own their home, up 4 percentage points in the past 10 years.

Americans have many reasons for wanting to become and remain homeowners. Home equity is a major and, in most cases, singular source of wealth. According to the latest data from the Federal Reserve, home owner equity totals $13,889 billion and accounts for 35 percent of household wealth. As a comparison, household's holding of corporate equity, for example their investment in the stock market, totals $4,166 billion or 11 percent of their worth. The equity in owned homes serves as homeowners' savings for college educations for their children, opening new businesses and retirement. Home equity also provides a financial cushion and source of funds for large expenditures like home remodeling, furnishing and landscaping. Over the past year, Freddie Mac estimates that homeowners extracted $166 billion from their homes when they refinanced. This additional consumer spending made a substantial contribution to keeping the economy going and recovering from the 2001 downturn.

Homeownership also has proven positive impacts on the nonfinancial side of households. Research published in social science and economic journals show that children raised in owned homes have higher test scores and remain in school longer. Other studies show that homeowners are more likely to be active in community affairs, more likely to vote and more likely to socialize with their neighbors. Neighborhoods of homeowners provide positive impacts on the neighborhood through higher maintenance expenditures and lower negative influences.

Building owned homes provides economic stimulus to the communities where they are located and to the economy as a whole. The typical new single family home spawns new economic activity in the community beyond the actual construction. NAHB estimates that the construction impact of building 100 homes and the attendant ripple effects add $11.6 million of economic activity, $1.4 million of new tax and fees to local governments and 250 new jobs. And the ongoing impact from a new household living and spending in the community adds $2.8 million in additional income to the area every year, about one-half million dollars to local government treasuries and 65 jobs.

Barriers to Homeownership

A little less than one-third of all households are renters and many chose renting because it fits their lifestyle, location preference or family situation. Many would prefer homeownership, but find barriers too large to jump. In addition, roughly 1.2 million additional households are formed every year, and many of these households search for but are unable to find affordable homeownership opportunities.

Barriers to affordability result from two sources: potential home buyers have insufficient savings to make a downpayment and cover the closing costs and/or home prices are too high because of unnecessary layers of restrictions, requirements, delays and other causes of added costs without benefit.

On the financial side, many households find the cash needed for a downpayment and the closing costs significantly exceed their savings. Even with existing programs sponsored by Federal agencies, FHA, VA and the RHS, the final downpayment and another 2 to 4 percent of the mortgage amount, or more, in closing costs is a very large sum for young families. Programs that reduce upfront costs are the most critical in getting first-time home buyers into housing. NAHB estimates that an extra $1,000 in downpayment assistance would allow 230,000 additional renters to buy a home.

On the regulatory barrier side, homes cost more than they should because local, State and Federal Governments erect obstacles and add costs that are unnecessary and without sufficient benefit. A large component of the costs are caused by delays and lengthy processing times at the local government level. There also are local policy barriers to affordable housing, including restrictions on multifamily housing, large-lot zoning, density restrictions, excessive impact fees, excessive street-width requirements, building moratoria and residential growth caps, among others.

Federal regulatory actions also add costs without corresponding benefits. For instance the Environmental Protection Agency recently reopened the designation of isolated wetlands even though a court decision provided sufficient definition. The Fish and Wildlife Service persistently designates very large tracts of land for critical habitat, which eliminates development from these areas and increases the cost of the remaining lands. There are many other examples like these where well-intended efforts to protect the environment or humans have unintended but significant negative impacts on housing, affordability and homeownership.

The U.S. Department of Housing and Urban Development (HUD) has established a new office to serve as a clearing house for efforts to identify and remove barriers to affordable housing. NAHB looks forward to working with this new office in this important effort.

Solutions

NAHB Support for the President's "Blueprint for the American Dream"

NAHB fully supports President Bush and his "Blueprint for the American Dream" initiative to increase homeownership opportunities for minority families. In support of the President's initiative, NAHB has committed to promote homeownership education, improve minority access to credit, and remove barriers to the production of affordable housing.

At the Federal level we are pursuing the enactment of a number of legislative proposals that will significantly address both the cost and cash resources barriers to homeownership. These measures include a homeownership tax credit to support the production of affordable homes in underserved areas; a refundable first-time home buyers' tax credit that can help lower upfront cash hurdles; more Federal grants to States for downpayment assistance for lower-income home buyers; and, several other initiatives to expand homeownership opportunities. NAHB is also pursuing changes in Federal regulations that will increase the incentives of lenders to address homeownership gaps and reduce the costs of Federal regulations.

The members of the National Association of Home Builders (NAHB) are committed to removing barriers to homeownership for minority families. Many of NAHB's State and local affiliates have engaged in initiatives to promote minority homeownership. NAHB has been working with its network of State and local affiliates to find markets that could most benefit from education and outreach initiatives. NAHB is also working with other Blueprint partners to identify opportunities for cooperative outreach efforts. NAHB is dedicated to increasing public education regarding the many existing programs—public and private—that can help families achieve the dream of homeownership.

NAHB Legislative Priorities

Homeownership Tax Credit

NAHB's top legislative priority in the 108th Congress is the Homeownership Tax Credit (HOTC). The credit was first proposed by the Administration and has been included in each of the President's last three budget proposals. Three bills have been introduced in this Congress that reflect the Administration's proposal. The bills have more than 20 sponsors in the Senate and 100 sponsors in the House. The first bill introduced in the Senate was S. 198, the "New Homestead Economic Opportunity Act" and was sponsored originally by Senators Gordon Smith (R–OR), Rick Santorum (R–PA) and Debbie Stabenow (D–MI). The second bill introduced in the Senate was S. 875, the "Community Development Homeownership Tax Credit Act" and was introduced by Senators John Kerry (D–MA) along with Senator Rick Santorum (R–PA), Senators Wayne Allard (R–CO), Debbie Stabenow (D–MI), and Paul Sarbanes (D–MD). The House bill is H.R. 839, the "Renewing the Dream Tax Credit Act" and was originally sponsored by Representatives Rob Portman (R–OH), Ben Cardin (D–MD) and Henry Bonilla (R–TX).

NAHB is working with nearly 30 national organizations to support the pending HOTC legislation in the Community Homeownership Credit Coalition. These groups include nonprofit and for-profit developers, State allocating agencies and corporate investors. These groups include the National Council of State Housing Agencies, Fannie May, Freddie Mac, and the National Realtors' Association.

All three HOTC bills provide a tax credit up to 50 percent of the construction or rehabilitation costs of building owner occupied homes in hard-to-develop areas that must be sold to low- and moderate-income buyers. Although NAHB opposes one provision in two of the bills that creates a preferential set aside for nonprofit developers, we support all three bills. We believe that an exceptionally fine HOTC program can be crafted from the proposals during the legislative process that will benefit Americans most in need.

The HOTC is needed to improve the quality of life in distressed neighborhoods through increased homeownership of quality housing. Existing buildings in distressed areas frequently are not renovated because the costs exceed the prices at which the housing units can be sold. Similarly, the costs of new construction may exceed the market values of the homes. Projects will not be built and neighborhoods will remain blighted unless the gap between development costs and market prices can be closed.

The HOTC proposals seek to close the gap in homeownership rates among Americans. While 82 percent of households earning 100 percent or more of the national median income now own homes, only 53 percent of households earning less than the national median are homeowners. The homeownership rate for families earning 80 percent or less of the national median is only 40 percent to 45 percent. Homeownership for whites is 75 percent while the ownership rate for African Americans is just below 48 percent and 48 percent for Hispanics.

According to the U.S. Census Bureau, there are an estimated 34.2 million renter-households in the United States but only about 3.5 million of them (10 percent) can afford to buy a modestly priced home, for example a home that is less expensive than 75 percent of owner-occupied homes in a given area.

The tax loss estimated by adding the HOTC to the Internal Revenue Code is expected to be $2.5 billion over the first 5 years and $16.1 billion over 10 years. For that tax expenditure the HOTC is expected to produce 50,000 new and rehabilitated homes annually, $2 billion of private equity investment, $6 billion in total investment generated, 122,000 jobs, $4 billion in wages, and $2 billion in taxes and fees.

The funding and administration of the HOTC is modeled on the Low Income Housing Tax Credit (LIHTC) that is used to finance rental properties. Each year a State is eligible for HOTC's of $1.75 per capita, or a minimum of $2 million. The State allocates credits to developers through a competitive allocation process administered by State agencies. A developer can obtain a HOTC for up to 50 percent of the development cost of each home. Developers can sell credits to investors to raise financing for construction or rehabilitation costs. The tax credit is claimed over 5 years and is not subject to recapture by the developer or investors, or any other obligation after the home is sold to an eligible buyer (generally a family with an income that is 80 percent or less than area median gross income).

The structural difference between the LIHTC and the HOTC is that the HOTC can only be used in distressed areas (location based) while the LIHTC can be used in all areas (income based) to provide housing. The location based HOTC is needed to increase homeownership in low- and moderate-income neighborhoods.

The three pending bills would apply the tax credit to a single-family home containing one to four housing units, a condominium unit, stock in a housing cooperative, modular housing, or manufactured housing. Qualifying residences would be located in a targeted census tract, in a chronic economic distressed area as defined in section 143(j)(3) of the Internal Revenue Code, a reservation for a Federally recognized Indian tribe, or in a rural area as defined by section 520 of the Housing Act of 1949. As defined, rural areas mean any open country, or any place, town, village, or city which is not part of or associated with an urban area and which (1) has a population not in excess of 2,500 inhabitants, or (2) has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character, or (3) has a population in excess of 10,000 but not in excess of 20,000, and (A) is not contained within a standard metropolitan statistical area, and (B) has a serious lack of mortgage credit for lower and moderate-income families, as determined by the Secretary of Agriculture and Secretary of Housing and Urban Development. The basis of the credit should include rehabilitation expenditures (excluding land).

NAHB generally favors giving States the maximum possible latitude in administering the HOTC program. In this regard, NAHB believes that the program will be more efficiently operated if all developers are treated equally at the Federal level. The creation of a Federally required 10 percent set aside for tax-exempt developers in S. 875 and H.R. 839 is an unnecessary intrusion on the States administrative authority. States should be allowed to choose to administer a fully competitive HOTC program in order to build the greatest quantity of quality housing possible. A statistical analysis by the U.S. General Accounting Office (GAO) found that there is a better than 85 percent chance that for-profit developers will build LIHTC rental properties (the model program for the HOTC) at lower cost than tax-exempt developers. It should be noted that tax-exempt developers now are awarded approximately 32 percent of the Low-Income Housing Tax Credit (LIHTC) awards for rental property developments. As a result they can be expected to have a very substantial involvement in the HOTC program without a Federal preference.

NAHB believes that the HOTC is a needed compliment to the LIHTC program. The LIHTC program serves residents that are at 60 percent or less of area median income (AMI). The HOTC program would serve homebuyers at 80 percent or less of AMI. As tenants move up in income and establish a credit rating, they need the option of moving into their own homes and start building equity capital for themselves. The HOTC provides this opportunity.

The complimentary relationship between the two credits is clearly illustrated in their administration. The two credits have separate allocation pools for agencies to use in allocating the tax credits to the two different types of property. State agencies can offer different rates of return to investors to reflect the structural differences between the credits. The LIHTC is paid over a 10-year period to investors. The investors are subject to a recapture of their tax benefit if property is not used as a low-income rental property during a 15-year compliance period. The HOTC is paid out over a five-year period to the developer or investors who own the property prior to its sale to a qualified buyer. After the sale, only the buyer of a HOTC home is subject to a possible recapture or loss of tax benefits if the property is sold or converted to a rental property during the five-year credit period. As a result of the differences between the credits, there is more risk associated with investments in the LIHTC than the HOTC. Rates of return are expected to reflect the risk differences.

None of the nearly 30 national associations supporting the HOTC legislation in the Homeownership Tax Credit coalition want to advocate any proposal that would have adverse long-term harm on the LIHTC. It would be contrary to many of the organizations' fundamental interests because they are stakeholders in the rental credit program. Coalition partners who are investors believe that the equity market for housing is large enough to support efficient tax credits for both rental and ownership housing. In fact, they issued a public statement to that effect. For example, the rental credit market remained very strong during the past 2 years despite declining corporate earnings among many corporate investors and a 40 percent increase in available credits.

First-Time Homebuyers' Tax Credit

NAHB supports a bill recently introduced by Senators Debbie Stabenow (D–MI), Gordon Smith (R–OR) and Mark Dayton (R–MN), the "First-Time Homebuyers' Tax Credit Act of 2003" (S. 1175) that would create a first-time homebuyer tax credit for low- and moderate-income homebuyers. The bill proposes to create a refundable tax credit of $3,000 for single taxpayers and $6,000 credit for married couples buying their first home. The credit could be assigned during the purchase negotiations to cover purchase, financing or closing costs incurred by the buyer. The credit can only be claimed once and is subject to an income phase out starting at $67,700 for single taxpayers, $96,700 for heads of household, and $112,850 for joint returns, with a dollar-for-dollar phase-out of the tax credit beyond the cap.

NAHB is one of the original organizations supporting the bill. We believe the legislation will help mitigate the major hurdles most American's face when buying their first home—having a sufficient down payment and covering closing costs. The proposal also compliments the HOTC program. It has been estimated that the program would help as many as 17 million people become homeowners over the next 7 years.

Tax Deductibility for Mortgage Insurance Premiums and Guarantee Fees

NAHB supports legislation introduced in the House of Representatives and the Senate that would make premiums paid for FHA and private mortgage insurance (PMI), and guarantee fees paid for Department of Veteran Affairs (VA) and Rural Housing Service loans tax deductible. The deduction for the fees is phased out for families with annual incomes greater than $100,000. Lower- and moderate-income homebuyers are the most frequent users of the insurance. Higher income families have alternative financing mechanisms that can be used in lieu of insurance. The deduction would result in an estimated revenue loss of $228 million over 5 years and $553 million over 10 years.

Senators Gordon Smith (R–OR), Blanche Lincoln (D–AR) and Wayne Allard (R–CO) introduced S. 846, the "Mortgage Insurance Fairness Act". An untitled bill to provide a tax deduction for mortgage insurance and other similar expenses (H.R. 1336) was introduced by Representatives Paul Ryan (R–WI), William Jefferson (D–LA), Clay Shaw (R–FL), John Lewis (D–GA), Philip English (R–PA), John Tanner (D–TN), Mark Foley (R–FL), Eric Cantor (R–VA), Bob Ney (R–OH), Mark Green (R–WI), Robin Hayes (R–NC), George Radanovich (R–CA).

The provisions of S. 846 were added as an amendment to H.R. 2, the "Jobs and Growth Tax Relief Act of 2003" in the Senate Finance Committee mark up of the economic stimulus legislation and was passed by the full Senate. Unfortunately, the provision was not reported out of the Conference Committee that resolved the differences between the House and Senate bills.

Currently, an estimated 7 million-plus homeowners pay premiums on FHA-insured mortgage loans and another 5.5 million pay private mortgage insurance premiums. Making mortgage insurance tax deductible would save FHA and PMI borrowers about $200 a year, while VA borrowers would receive a one-time benefit of $700. The proposed legislation would lower the after-tax cost of mortgage borrowing enough to enable 300,000 additional renters to buy a home.

American Dream Downpayment Initiative

NAHB supports the "American Dream Downpayment Act," which was introduced in the Senate as S. 811 by Senators Wayne Allard (R–CO) and Jeff Sessions (R–AL). Representative Katherine Harris (R–FL) introduced a companion bill (H.R. 1276) in the House along with 31 cosponsors. The bills provide $200 million to assist lower-income families in achieving homeownership. This legislation targets funding under the HOME Investment Partnerships Program specifically to lower-income families seeking to purchase a home. The funds flow through the existing HOME block grant framework to State and local governments for programs providing downpayment and closing cost assistance. The program is expected to assist 40,000 households each year.

While we strongly support the intent of this legislation, NAHB has concerns with the proposed funding source. We believe that appropriations for the program should be above and beyond the funding appropriated for the HOME program, and not a set-aside within HOME's budget. NAHB is an ardent supporter of the HOME program, which is a vitally important source of gap financing supporting affordable housing production in conjunction with the Low-Income Housing Tax Credit program, tax-exempt bond financing, and other State and Federal affordable housing programs. In addition, HOME program already funds a significant portion of homeownership assistance efforts. NAHB has enthusiastically endorsed proposals to further increase HOME funding in the fiscal year 2004 budget and feels additional funds, outside of HOME, should be allocated to support the "American Dream Downpayment Act."

FHA Modernization

Federal Housing Administration's (FHA's) single family insurance programs are vital to the housing finance system in serving borrowers and homeownership needs not addressed by the private sector. FHA has become increasingly less effective and efficient, however, as statutory and regulatory restrictions, as well as the constraints of the HUD bureaucracy, have caused FHA to lag behind the pace and standards set in the conventional housing finance industry. FHA is hamstrung by substandard operating and information systems and a short-handed and inexperienced workforce. As a result, FHA is not able to respond promptly and appropriately to developments in the mortgage marketplace or to foster innovations in housing finance products and programs. These problems are most severe in the area of new home production.

To regain its role as an effective and innovative leader in the affordable housing finance arena, FHA must gain greater autonomy from bureaucratic and political influences. FHA's mission should continue to focus on supporting liquidity, innovation and continuity in the housing finance markets, and on supporting financing needs not adequately addressed by the private sector, through the provision of mortgage insurance representing the full faith and credit of the U.S. government. However, FHA should have the authority, without further Congressional action, to create or alter specific insurance programs in order to have the flexibility to react promptly to changes in market and other conditions. Hiring, salaries, personnel management, and procurement would be freed from current, confining Federal Government constraints in order to be more consistent and competitive with the private sector.

FHA Insurance of Construction Loans

One area where FHA can add significant value is through insurance of single family construction loans. Most builders, particularly smaller companies (those building fewer than 500 homes a year), which account for about three-quarters of annual new home production, must rely exclusively on insured depository institutions (mostly commercial banks) for construction credit. There is no secondary market to attract new lenders and investors to this market. The development of such a market will lower the cost of construction credit, help attract more capital to underserved areas and help home builders avoid the type of severe credit crunch that occurred in the early 1990's. In addition, the availability of secondary market liquidity support would assist current market lenders, many of which are restricted by loans-to-one-borrower limits required by Federal banking statutes.

Availability of FHA insurance for home construction loans would enhance efforts to find secondary market outlets by opening up the Ginnie Mae program to issuers using housing production collateral. FHA has a construction-to-permanent mortgage insurance program, which is currently inactive. Under this program FHA does not insure the construction segment of the loan. There is clear precedent for this on the multifamily side where FHA insures construction loans that convert to permanent mortgages.

NAHB Regulatory Priorities

Fannie Mae and Freddie Mac Housing Goals

Fannie Mae and Freddie Mac are required by law to meet annual housing goals established by HUD. The goals compel Fannie and Freddie to purchase loans on affordable homes, including those in underserved markets such as high-minority and low-income census tracts. Revisions to the goals for the years 2004–2006 are currently under review by HUD.

The housing goals track the firms' purchases of mortgages for low- and moderate-income people (the low/mod goal); loans in underserved geographically targeted areas (the geographically targeted goal); and, mortgages for very low-income people and neighborhoods (the special affordable goal).

The Administration's 2004 budget analysis suggests that HUD may incorporate new factors into the housing goals to spur increased minority homeownership rates. Senior HUD officials have requested input from the housing industry in the development of new housing goals.

NAHB is a strong supporter of the affordable housing goals for Fannie Mae and Freddie Mac. The goals have encouraged Fannie and Freddie to reach deeper into the affordable housing market with tangible benefits. NAHB supported HUD's increase in the goals for the 2001–2003 period, from the original goals put in place in 1995. NAHB feels that more needs to be done to encourage the GSE's to increase their activities in some market segments, such as rural areas and multifamily production.

At the same time, proposed changes to the housing goals should undergo careful examination. NAHB believes that Fannie Mae and Freddie Mac were created to serve a broad range of housing needs and we would not want overly stringent goals to impede that mission. Additionally, continual increases in the percentage targets will have diminishing returns and run the risk of adversely impacting other housing programs, such as FHA's single family program. The Mutual Mortgage Insurance Fund that backs the FHA program relies on a cross subsidization of loans within the program for ongoing self-sufficiency. FHA has been experiencing higher default experience in recent years as Fannie Mae and Freddie Mac have captured more of the better performing loans in the first-time home buyer, lower-income part of the market. Excessive housing goals for Fannie Mae and Freddie Mac would exacerbate this trend and could have damaging effects on the FHA fund.

Efforts to Remove Homeownership Barriers

NAHB Efforts

NAHB is firmly committed to removing barriers to affordable housing. NAHB and its more than 800 State and local affiliates have been active at the Federal, State and local level, working with law makers to identify policies and bureaucratic hurdles that make it difficult to build affordable housing or that add to the cost of such housing.

Representatives of NAHB and its affiliates have met with legislators and regulators at all levels of government to explain how these barriers can be removed without compromising the quality of development. NAHB has also been active in demonstrating the negative effects of not-in-my-backyard (NIMBY) resistance to infill development, and in working for Federal and State legislation to encourage cleanup and redevelopment of brownfield sites.

At the Federal level, NAHB has been one of the strongest proponents of reform of existing brownfields redevelopment laws that fail to provide adequate liability protections for private sector firms seeking to clean and redevelop brownfields sites.

At the State level, NAHB's affiliates have worked with State legislatures and regulatory agencies to encourage policies that provide incentives for the production of affordable and eliminate excessive fees and regulations that drive up the cost of housing and price hundreds of thousands of families out of home ownership.

NAHB's local affiliates have been working with local elected officials and planning agencies to revise zoning and development regulations that discourage innovative land use practices such as mixed-use developments, cluster developments and higher-density housing near mass transit facilities.

Partnership Efforts

NAHB is actively working to facilitate affordable housing partnerships involving our federation of State and local home builders associations. We have ongoing partnerships in many areas of the country, including Lincoln, Nebraska; Nashville Tennessee; Albuquerque, New Mexico; Fresno and Sacramento, California; San Antonio, Texas; Pittsburgh, Pennsylvania; and, Portland, Oregon.

Our most recent initiative involves a partnership with Nueva Esperanza, a major Hispanic faith-based community development corporation, to build affordable housing in several cities across the United States. The first of these is taking place in Orlando, where NAHB, Nueva Esperanza and Esperanza USA are working to achieve the affordable housing production goals of the Hispanic Capacity Project in Mid-Florida.

Nueva Esperanza and its affiliates have an outstanding record of developing and operating successful programs addressing a wide range of needs of Hispanic households. NAHB looks forward to a partnership with Nueva Esperanza in the home building efforts of the Hispanic Capacity Project. Through the Orlando Project, the partners hope to develop a model for community partnerships that can be used to address affordable housing needs throughout the country.

Within the partnership, NAHB will:

- Work through NAHB's federation of more than 800 State and local home builders associations to identify home builders with interest and expertise in affordable housing production and encourage their participation in the Hispanic Capacity Project.
- Provide information to NAHB's members on the benefits of affordable housing partnerships and information and technical assistance on available financing programs and approaches as well as on innovations in design and building materials and techniques.
- Participate in communication and education efforts with communities and prospective home buyers.
- Assist in identifying and involving financing resources.

Conclusion

Mr. Chairman, thank you for the opportunity to present testimony to the Committee on the issues of concern to home building industry during Homeownership Month. We appreciate being able to focus attention on ways to increase homeownership in the United States. Although the home building industry has been a key to the national economy, we believe the proposals we support are needed to bring the benefits of homeownership to the largest possible segment of the our population. NAHB looks forward to working with you, as well as the other Members of Congress and the Administration in making the dream of homeownership come true for as many people as possible. Thank you again.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM MEL MARTINEZ

Q.1. The Bush Administration has proposed a single-family tax credit that would go to builders to help offset the cost of construction. Senator Stabenow, along with Senator Gordon Smith, has also introduced a homebuyer tax credit. What do you see as the relative merits of this proposal as compared with the Administration's relative merits?

A.1. This question should be referred to the U.S. Department of the Treasury, as the issue is not directly under HUD's jurisdiction. The Administration is firmly committed to helping Americans in economically distressed communities. However, because there are limits on what the Federal government alone can accomplish, a more comprehensive approach is necessary. This approach calls for initiatives to encourage further involvement by individuals, businesses, and community-based and faith-based organizations in working to completely eliminate conditions of economic distress in this country.

Administration tax proposals benefiting low-income individuals or distressed communities that have already been enacted include the following: (1) extension of the work opportunity tax credit through 2003; (2) extension of the welfare to work credit through 2003; (3) extension of authority to issue qualified zone academy bonds through 2003; (4) authorization of tax-exempt private activity bonds to finance reconstruction in the area surrounding the World Trade Center in New York City devastated by the September 11, 2001 terrorist attacks; (5) creation of a new 10 percent income tax bracket; and (6) doubling of the child tax credit to $1,000.

The President's Budget for fiscal year 2003 contains additional proposals on both the spending and tax side. The tax proposals include creation of a new tax credit, similar in design to the Low-Income Housing Tax Credit, for developers of affordable single-family housing, and making the brownfields tax incentive permanent.

Q.2. One of the more innovative approaches to leveraging existing housing programs in order to increase homeownership is the use of the Section 8 voucher program for homeownership. How many families has HUD moved to homeownership under this program, and does the Administration have any proposals to increase its effectiveness?

A.2. As of June 2003, over 350 public housing agencies have implemented the homeownership option in the housing choice voucher program, and almost 1500 new homeowners are participating in the program. This represents a significant increase in activity over the last six months, with the numbers increasing from 200 PHA's and 600 participants, respectively. As the program is still in its relative infancy and given the marked increase in success over the past year, HUD is not proposing any major changes to the current monthly assistance option at this time. However, HUD's fiscal year 2004 Budget Request does provide for the implementation of the voucher downpayment grant option in order to increase the program's flexibility to help families achieve the American Dream of homeownership.

Q.3. It has been a decade since the Kemp Report identified a variety of regulatory barriers to the construction of affordable housing. Yet, little progress appears to have been made since the Kemp Report. How will HUD's new Office of Regulatory Reform go beyond what was learned in the Kemp report?

A.3. In attempting to create a new Office of Regulatory Reform, it became obvious that a more comprehensive approach was to create a Department-wide Initiative on Affordable Housing. The Initiative consists of a team of senior officials and dedicated staff who are knowledgeable in the field of affordable housing and who represent the various offices within HUD. They are required to meet on a weekly basis to address the issue of how best to break down the regulatory barriers at all levels of Government and to develop plans to educate and work with States and local governments, as well as other interest groups and Federal agencies. The Director of the Initiative reports directly to the Secretary and Chief of Staff. An update to the Kemp Report is being prepared which will include a number of goals and recommendations. However, this list may not be all-inclusive, as the Initiative team will continue to work on developing new plans and concepts.

As opposed to creating another layer of bureaucracy by trying to establish an Office of Regulatory Reform, the Initiative team was able to hit the ground running in creating a unified and Department-wide effort to breakdown regulatory barriers to affordable housing. This Initiative will remain a top priority for Secretary Martinez.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CHAFEE FROM MEL MARTINEZ

Q.1. While I support efforts to encourage homeownership, I am very concerned about the shortage of affordable housing. What steps is HUD taking to encourage the production of affordable housing units?

A.1. A number of HUD's programs and initiatives help to annually increase the number of affordable rental housing units available to low-income families. These programs include incremental housing vouchers, the HOME Investment Partnerships program (since 1992, participating jurisdictions have spent more than 55 percent of their HOME funds on rental housing), the Supportive Housing for the Elderly (Section 202) program, the Supportive Housing for the Disabled (Section 811) program, the HOPWA program, the Native American Housing Block Grant program, the CDBG program and FHA multifamily insurance. HUD has consistently over the years requested funding increases for programs that have been successful in increasing the supply of affordable housing, and has targeted millions of dollars in technical assistance, through programs such as HOME, for training, direct assistance, and the development of written and web-based products to increase the capacity of local housing providers to develop additional affordable housing units.

HUD also works to ensure that the stock of assisted housing is not diminished as a result of opt outs and prepayments so that the extent to which these events adversely affect tenants is minimized.

Finally, HUD plans to continue its on-going efforts to expand families' access to affordable private-market housing through activities such as: multifamily mortgage insurance, research that seeks to reduce the construction and operating costs of housing, and the maintenance of a regulatory barriers clearinghouse for sharing information on how to address local regulatory barriers to the development of affordable housing.

Q.2. Why does the Administration oppose the National Affordable Housing Trust Fund Act (S. 1248 in the 107th Congress and H.R. 1102 in the 108th Congress), which is intended to create 1.5 million new units of affordable housing over 10 years? What alternative strategies do you endorse that would generate the same level of production?

A.2. As you are aware, H.R. 1102, the National Affordable Housing Trust Fund Act of 2003, was introduced in the House in March. This Administration is strongly committed to increasing minority homeownership and opportunities for affordable housing, however, we do not support the proposal to create a national Housing Trust Fund. The Home program, which has been in place since fiscal year 1992, expands the supply of decent, affordable housing for low- and very low-income families by providing grants to States and local governments to acquire, construct or rehabilitate housing. The Administration believes that the HOME program is the proper tool to increase the availability of affordable housing.

From fiscal year 1992 through the first quarter of fiscal year 2003, HOME funds have been committed to produce over 728,000 units; of these, nearly 465,000 units have been completed. Income targeting of HOME funds substantially exceeds statutory requirements, reaching those most in need of affordable housing. Forty-one percent of HOME rental units are occupied by families who are extremely low-income (i.e., families with incomes below 30% of area median income) and eighty percent of families receiving HOME tenant-based rental assistance qualify as extremely low-income. In addition, HOME funds have assisted nearly 275,000 low-income families with homebuyer assistance. The Administration's 2004 budget request increases HOME funding by $210 million from the 2003 enacted level.

HOME is an integral part of financing affordable rental housing. On average, the HOME program leverages three private dollars for every dollar of federal investment. State and local governments also match HOME funds with their resources. Furthermore, HOME creates no long-term Federal liability and works with community-based nonprofit and faith-based organizations.

The Low-Income Housing Tax Credit (LIHTC), which is administered by the States and is the largest federal affordable housing production program, also leverages substantial private investment. The program was expanded in 2001 to give the States over $5 billion in annual authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing for low-income families. Currently, over $10 billion in private funds has been invested in projects resulting in the production of over 800,000 rental-housing units—roughly 100,000 units each year. The LIHTC is often used in concert with the HOME program to enable developers to build more units for those with the lowest incomes.

The National Affordable Housing Trust Fund legislation seeks to "assist the development, rehabilitation, and preservation of affordable housing" but would duplicate activities under existing programs. The HOME and LIHTC programs currently provide a substantial amount of affordable housing opportunities.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM MEL MARTINEZ

Downpayment Assistance

Q.1. Many communities, such as ones in my home State of Rhode Island, have chosen to use their HOME funds to provide gap financing or assist in the production of affordable housing instead of downpayment assistance because of greater need for these HOME program uses. Since communities such as these would have less "prior commitment" to funding downpayment programs according to your formula and thus be disadvantaged in the funding formula. How do you expect such communities to be able to establish new downpayment programs with such a disadvantage?

A.1. A projected 549 of the 602 PJ's having received a HOME allocation in fiscal year 2003 would receive American Dream Downpayment Initiative (ADDI) funding at the $200 million appropriation level using the formula HUD proposes to be used for the distribution of fiscal year 2003 funds. The need portion of the formula is the main determinant of funding with the past commitment component serving largely to redistribute funds among the funded PJ's. With inclusion of prior commitment in the formula, the Department believes that an incentive to fund homebuyer assistance will be created and that funds will be directed to communities most likely to use them.

At the $200 million funding level, all PJ's, including those not receiving an allocation of ADDI funds, will be able to establish a new downpayment assistance program using either ADDI funds or their regular HOME allocation.

Q.1.a. HUD is in the process of formulating rules for the $75 million allocated for downpayment assistance in the fiscal year 2003 HUD Budget. When will the rules be published in the Federal Register? How soon after the rules are published will communities be able to access such funds?

A.1.a. The Department intends to send the rule to OMB. Following their approval, we would send the rule to Congress. After the 15-day Congressionally mandated review period, the Department would plan to publish the rule in the Federal Register. The rule would be effective 30 days after the publication date and it is anticipated that funds will be made available to HOME participating jurisdictions soon thereafter.

Q.1.b. As previously acknowledged, downpayment assistance is a HOME eligible activity. Which participating jurisdictions (PJ's) currently have active downpayment assistance programs? How much of their HOME allocation goes for downpayment assistance? What is the average downpayment assistance grant per family? If the American Dream Downpayment Initiative (ADDI) passes, how many PJ's that have not used their HOME funds for Downpayment assistance previously do you expect to obtain funding under the formula as currently proposed?

A.1.b. Five hundred out of the 602 PJ's receiving HOME funds in fiscal year 2002 have used these funds as part of a local homebuyer program, and would get credit for past commitment to "homebuyer activity" in the ADDI formula. Homebuyer activity includes new construction, rehabilitation, and "acquisition only" (for example, downpayment assistance, and assistance to purchase "standard" properties requiring no rehabilitation). Of the 500 PJ's reporting homebuyer activity, 414 have used HOME funds for "acquisition only".

As of May 31, 2003, 189,978 households have been or are in the process of being assisted with HOME funds to acquire homes either, through downpayment assistance or assistance to purchase standard properties. To date, approximately 12 percent of total HOME allocations have been committed to either downpayment assistance or the purchase of standard homes. IDIS, HUD's information and data collection system, is now in the process of being upgraded to distinguish between these two categories of "acquisition only" assistance. The improved system is scheduled to be in place by the time fiscal year 2003 ADDI funds are distributed. $7,284 is the average assistance per homebuyer for "acquisition only." Since "acquisition only" currently includes both downpayment assistance and the more costly assistance needed to fund the purchase of standard properties, the per family average for downpayment assistance only would be lower than $7,284, and we will be able to report the exact figure once the above mentioned improvements to IDIS are in place.

At the $200 million funding level, 49 out of the 102 HOME PJ's that have not used their HOME funds for homebuyer activities in the past are projected to be funded under ADDI, based on the formula to be used in the distribution of fiscal year 2003 ADDI funds.

Affordable Housing Production

Q.1. According to the most recent Housing Price Index (HPI) Report from the Office of Federal Housing Enterprise Oversight (OFHEO), the median price of a home in the United States during the first quarter of 2003 was 6.48 percent higher than a year ago. In my own State of Rhode Island, homes appreciated 15.7 percent last year—the Nation's fastest rate and more than twice the national average of 6.89 percent. My State housing finance agency says that only 216 of the single-family homes currently for sale in the entire State of Rhode Island are considered affordable (meaning a family earning or 80 percent of our State's median family income can afford them). This represents only 9 percent of the homes on the market. I would like to note for the record that if you added $200 million to the existing HOME program, States like Rhode Island could use the additional money to help build housing and/or provide gap financing—making many more homes affordable to low-income families in my State.

Why aren't you just adding $200 million to the existing HOME formula so that States and local governments can have the flexibility in deciding how to expand homeownership opportunities?

A.1. The American Dream Downpayment Initiative (ADDI) is a key building block in the President's Blueprint for Homeownership along with the proposal for the homebuyer tax credit and increased funding for homebuyer counseling. The Department has proposed an increase of $113 million in the regular HOME Program. By using the current HOME rules and delivery system, the Department intends to make the downpayment initiative a success by focusing attention on this important wealth building opportunity for low-income families to own their own homes.

Q.2. In 2000, Congress authorized HUD to provide regulatory barrier removal grants to States, localities and nonprofits to encourage them to remove impediments to the production of affordable housing in their communities. When you announced the creation of the Office of Regulatory Reform, you acknowledged the fact that regulatory barriers impede the production of affordable housing, especially for minority families. Why haven't you requested funding for this useful tool to help communities to remove barriers to affordable housing?

A.2. After thorough review by our Office of General Counsel, HUD is unaware of such regulatory barrier removal grants. However, in attempting to create a new Office of Regulatory Reform it became obvious that a more comprehensive approach was to create a Department-wide Initiative on Affordable Housing. The Initiative consists of a team of senior officials and dedicated staff who are knowledgeable in the field of affordable housing and who represent the various offices within HUD. They are required to meet on a weekly basis to address the issue of how best to break down the regulatory barriers at all levels of Government and to develop plans to educate and work with States and local governments, as well as other interest groups and Federal agencies. The Director of the Initiative reports directly to the Secretary and Chief of Staff. An update to the Kemp Report is being prepared which will include a number of goals and recommendations. However, this list may not be all-inclusive, as the Initiative team will continue to work on developing new plans and concepts.

As opposed to creating another layer of bureaucracy by trying to establish an Office of Regulatory Reform, the Initiative team was able to hit the ground running in creating a unified and Department-wide effort to breakdown regulatory barriers to affordable housing. This Initiative will remain a top priority for Secretary Martinez.

Q.3.a. I commend HUD's goal of increasing minority homeownership nationwide. Among the many barriers to minority homeownership, discrimination is a significant one. I have seen from HUD's Housing Discrimination Study 2000 that discrimination in rental housing continues at an unacceptable rate. And the Urban Institute study contracted by HUD entitled "All Other Things Being Equal: A Paired Testing Study of Mortgage Lending Institutions" (April 2002) found that "African American and Hispanic homebuyers in both Los Angeles and Chicago face a significant risk of unequal treatment when they visit mainstream mortgage lending institutions to make preapplication inquiries.” Housing discrimination in homeownership is manifested in racial steering, mortgage lending discrimination, and insurance discrimination, especially with insurance rates rising.

What steps is HUD taking to address and fight steering, lending and mortgage insurance discrimination?

A.3.a. President Bush and Secretary Martinez have committed to increasing minority homeownership by 5.5 million by the end of the decade, but observe that there are many obstacles to achieving this goal. Housing discrimination is one of them. Recent HUD studies show that many minority persons face discrimination throughout the homebuying process. One study, revealed the troubling high rate of discrimination by real estate agents who provide different information to minorities or discriminate in recommending houses. Then, another study shows that minorities, once they have selected a home, face discrimination when inquiring about mortgage loans. We cannot close the minority homeownership gap without addressing these problems. The following summarizes some of the efforts the Department has undertaken to respond to these specific concerns.

Steering

- The Department has awarded $1 million for follow-up tests of agents and housing providers with significant patterns of discrimination in HDS 2000. If HUD uncovers evidence of unlawful steering or other discrimination, HUD will take enforcement action.
- The Department is awarding a contract of about $500,000 to conduct enforcement testing in regions where our 2000 Housing Discrimination Study (HDS 2000) showed high levels of rental and sales discrimination. Because the study showed an increase in discriminatory steering of African Americans, we will be sure that our testing of discrimination in home sales emphasizes investigation of racial steering. If discrimination is found, HUD will exercise its authority to bring a Secretary-initiated complaint under the Fair Housing Act.
- In April 2003, HUD signed a Memorandum of Understanding (MOU) with The National Association of Realtors, The National Association of Real Estate Brokers, The National Association of Hispanic Real Estate Professionals, and The National Association of Asian American Real Estate Professionals. The MOU calls upon all signatories to educate their members on the importance of compliance with the Fair Housing Act and its prohibition against steering.
- The HDS 2000 finding that the practice of racial steering has increased since 1989, coupled with the finding in HUD’s awareness study that nearly half the public is unaware that such practice is unlawful, has warranted that HUD’s fair housing enforcement program devote more attention to the problem, in general (in addition to the specific enforcement contracts identified above).

Lending Discrimination

- HUD is examining patterns of prime and subprime lending and will bring enforcement actions where there is evidence of redlining or steering to subprime lenders. More specifically, we are awarding a contract of about $500,000 to identify lenders and mortgage companies that may be engaged in lending discrimination or predatory lending.
- Because of the time and resource-intensive nature of lending investigations, HUD has acquired WIZ, a computer software program that can rapidly analyze loan data for discriminatory patterns. This will decrease the time and resources necessary to investigate lending discrimination.
- HUD's Office of Fair Housing and Equal Opportunity (FHEO) has developed materials to alert people to the more common forms of lending discrimination and has posted this information on its website, www.hud.gov/fairhousing. FHEO is also creating an office of Outreach and Education wholly dedicated to educating the public about fair housing and fair lending rights and remedies.
- HUD's $45 million housing counseling grant program for fiscal year 2004 encourages housing counselors to include a fair housing component.
- Predatory lending poses a significant danger to minority and women homeowners targeted for equity-stripping loans. Senior level staff from FHEO regularly provide public education on this subject. HUD also serves on a Federal interagency lending taskforce that meets regularly to discuss methods for combating lending discrimination, in general, and predatory lending, in particular. Together, the members of the task force have developed pamphlets to educate consumers about the dangers of predatory lending, how to identify a predatory loan, and what to do if they are victims.

Insurance Discrimination

- HUD continues to investigate complaints of discrimination in the provision of homeowners insurance, as part of its fair housing enforcement program, and as in other cases, will issue charges where such practices violate the Fair Housing Act. In fiscal year 2002, HUD and its State and local agency partners received 13 complaints of insurance discrimination. HUD has already received 21 such complaints in fiscal year 2003.

Q.3.b. What steps is HUD taking to identify and eliminate marketing tactics and schemes in lending (including refinances and home equity loans) that adversely affect women and minorities?

A.3.b. Subprime loans play a significant role in today's mortgage lending market, making homeownership possible for many families who would otherwise fail to qualify for conventional loans. However, a subset of subprime lenders, often referred to as predatory lenders, sometimes target minorities and women for home equity loans with abusive terms and conditions.

The Department believes that in some instances, predatory lending may violate the Fair Housing Act, especially if the primary purpose of the loan is to deprive minorities or women of housing.

Wherever HUD finds a lender has engaged in a predatory loan practice because of race or sex whether it involved the making of a primary loan or a refinancing—we will take enforcement action. We are presently examining patterns of prime and subprime lending to determine whether any lenders are engaged in redlining, steering, or discriminatory predatory-lending practices. In addition, HUD's Office of Policy Development and Research continues to conduct research to shed light on the prevalence and practices of subprime lenders and possible bad actors in that market.

Insurance Discrimination

Q.4.a. Subsection 4 of Section 100.70 "Other prohibited sale and rental conduct" of the regulations for the Fair Housing Amendments Act of 1988 states that it should be unlawful to refuse "to provide municipal services or property or hazard insurance for dwellings or providing such services or insurance differently because of race, color, religion, sex, handicap, familial status or national origin."

What types of investigations does HUD have underway regarding sales, lending and insurance discrimination?

A.4.a. Most of HUD's fair housing enforcement activities arise from complaints individuals file with HUD or the State or local agencies that administer laws that are substantially equivalent to the Federal Fair Housing Act. In fiscal year 2002, HUD and these partners received 491 complaints of sales discrimination, 454 complaints of discriminatory financing, and 13 complaints of insurance discrimination. Thus far in fiscal year 2003, HUD and its partners have received 341 complaints of sales discrimination, 347 complaints of discriminatory financing, and 21 complaints of insurance discrimination.

HUD investigates each of these complaints while simultaneously attempting to conciliate. If no conciliation agreement is reached and the investigation finds reasonable cause to believe a violation has occurred, HUD issues a charge.

The Department also has the authority to conduct Secretary-initiated investigations. To determine the need for this, HUD is awarding contracts totaling $1.5 million for enforcement testing to follow up on the results from research testing in HDS 2000. We are also in the process of awarding $500,000 for enforcement and education efforts to address lending discrimination.

Q.4.b. What type of private enforcement efforts is HUD supporting or instituting to help potential victims of sales, lending and insurance discrimination?

A.4.b. Every year HUD awards monies to private fair housing groups to address the full range of practices prohibited by the Fair Housing Act, including discrimination in sales, lending and homeowner's insurance. In fiscal year 2003, HUD provided, overall, $10.2 million for the Private Enforcement Initiative (PEI) of the Fair Housing Initiative Program (FHIP). Rather than provide issue-specific grants, the Department requires the private, tax-exempt fair housing enforcement organizations that receive these funds to address the full range of discriminatory practices that arise in their communities.

Q.4.c. In recent months, many insurance companies have increased the cost of their homeowner's coverage, especially in integrated and minority neighborhoods. Some real estate agents have even complained of a decrease in their client base due to the rising cost of homeowner's insurance. What efforts is HUD undertaking to investigate these increases?

A.4.c. The Department has not received any complaints alleging that insurance companies are raising insurance rates in a discriminatory manner. The Department stands committed to investigate any matter that may violate the Fair Housing Act. We would be interested in any additional information you may have regarding these rate increases.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM TERRY MONTAGUE

Q.1. Ms. Montague, you spoke in your testimony of the importance of HUD's Asset Control Area program. You also mentioned in your written testimony that the Sandtown community was initially characterized by 600 vacant homes. I am concerned that in many instances, vacant homes are already owned by nonprofits or local governments. We have seen here in Washington, DC several vacant homes, received by nonprofits under the Asset Control Area program, simply remain eyesores. What changes can be made to the Asset Control Areas program to improve its effectiveness?

A.1. We appreciate this opportunity to update the Committee on the progress HUD and participants in the Asset Control Area (ACA) program have made in making it much more accountable and effective during the past 10 months. The program today is substantially stronger than when it was initially implemented by the prior Administration.

The prior Administration executed individual ACA agreements with varying terms and conditions with each of the 16 initial participating jurisdictions in the program, rather than promulgate uniform regulatory guidance. Most initial participants were making progress under their agreements at the time HUD temporarily suspended the program in the spring of 2002.

The Department's primary reason for suspending the program was an audit by its inspector general (IG) that alleged HUD had inadequate staff capacity and management controls to assure that the program fulfilled congressional intent.[1] The audit also found that some ACA agreements allowed local governments and/or nonprofits to engage in activities "contrary to specific provisions of the Act," including buying and selling homes outside qualified areas; permitting sale of homes to for-profit developers at discounted prices and allowing sale of homes to buyers before homes were rehabilitated. Finally, the audit alleged a group in Washington, DC had violated its agreement in several areas.

The audit recommended that, if HUD restarted the program, the Department should promulgate final regulations; establish stronger monitoring, oversight, reporting and sanctions; and require more documentation from ACA participants on how they would imple-

[1] HUD Inspector General "Nationwide Audit, Asset Control Area Program, Single Family Housing," February 25, 2002.

ment their revitalization plans.[2] In the fall of 2002, after an intensive internal review and consultation with program participants, HUD invited those entities (except the one from Washington, DC, which was barred from participating in any Federal Housing Administration [FHA] program) to apply to participate in a revised program. HUD reported that it had "worked aggressively to revise program policy and to strengthen program controls . . . consistent with prudent program management."[3]

HUD's revised program guidance provides uniform policies and procedures for all participants. Current ACA participants (listed below) are applying under HUD's new guidance to resume their ACA initiatives, or, in the case of new applicants, start programs. In order to participate, nonprofit organizations must certify that they are acting on their own behalf and not under the control or direction of any party seeking to derive profit from their ACA initiatives.

In addition, they must submit extensive organizational documents (by-laws, articles of incorporation, verification of tax-exempt status), evidence of approval to participate in FHA programs and information on their board members and staff. Nonprofits must prove they have adequate space for employees and records through photographs and floor plans of their offices. They also must provide evidence of their organizational, administrative and financial capacity to carry out their ACA initiatives, as well as two consecutive years of development experience. This information must include audited financial statements, sources and stability of capitalization, information on accounting and banking systems and internal and external audit and monitoring procedures. And nonprofits must provide information on any business partners or consultants involved in their ACA initiative and disclose the terms of the relationship.

The revised ACA requirements also require nonprofits to provide detailed information on their actual ACA initiatives, including a business plan that provides a comprehensive two-year neighborhood revitalization strategy describing the acquisition, management and, rehabilitation of the homes in the ACA. The business plan must show the geographic area of the initiative, the targeted buyers and how they will benefit from the initiative, including through any homeownership counseling. It must list all properties the nonprofit owns and intends to purchase, provide a timeline for purchasing, rehabilitating and selling properties and describe standards for rehabilitation.

Finally, the revised ACA agreement requires ACA participants to provide certified monthly, quarterly and annual reports to HUD. The reports list all ACA properties not yet sold or leased by the purchaser, including the property address, the transfer date and the status of the repair costs, with a separate itemization of costs incurred to complete work in the repair reports, and the marketing status with an anticipated resale or lease date. The reports also include information on each property, including the acquisition date and purchase price; total repair and rehabilitation costs, with a

[2] The audit also recommended that HUD seek a statutory change to limit the number of homes in an ACA.

[3] HUD letter to ACA participants, September 13, 2002.

separate itemization of costs incurred to complete the work in the repair report; marketing and sales costs; the date the property was sold to an eligible buyer; whether the buyer is a police office or teacher; the sales price; and the buyer's name, family size and income as a percentage of area median.

In addition, purchasers must submit reports to HUD to ensure consistency with the ACA business plan. Repair reports must include a "valuation condition" form; a list of all repairs required to fix any deficiencies noted in it; photographs of all deficiencies in excess of $2,000; and a certification from the person completing the repair report that they are either a FHA 203(k) qualified consultant or a property inspector with similar qualifications.

We support HUD's new safeguards to ensure an efficient, effective and accountable ACA program. We are recommending two statutory changes to the program that will ensure it achieves Congress' intent in creating it. These changes are described in our answer to Senator Sarbanes' second question.

Asset Control Area (ACA) Program Participants as of July 10, 2003

Enterprise Home Ownership Partners, Inc. (Los Angeles, CA)

Cleveland Housing Network, Inc. (Cleveland, OH)

Corporation for Independent Living (Hartford/Manchester, CT)

Our City Reading (Reading, PA)

City of Rochester (Rochester, NY)

Hispanic Housing Development Corporation (Chicago, IL)

Neighborhood Housing Services of Chicago (Chicago, IL)

County of San Bernardino (San Bernardino, CA)

Mi Casa (Washington, DC)*

City of Camden (Camden, NJ)*

St. Ambrose Housing Aide Center (Baltimore, MD)*

Q.2. You mentioned your support for the Kerry-Santorum tax credit proposal. Senator Stabenow, along with Senator Gordon Smith, have also introduced a homebuyer tax credit. The Stabenow-Smith tax credit, however, goes directly to the homebuyer. What do you see as the relative merits of this proposal as compared to the Kerry-Santorum proposal?

The Kerry-Santorum proposal (S. 875) and the Stabenow-Smith proposal (S. 1175) are intended to address two totally different barriers to affordable homeownership.

S. 1175 is designed to provide additional resources to prospective homebuyers to enable them to pay downpayment and closing costs associated with buying a home. The subsidy the tax credit would provide would increase the affordability of for-sale housing that already exists. Certainly, insufficient savings for downpayment and closing costs are a significant barrier to homeownership for many low-income families. Providing a tax credit to homebuyers to alleviate the "affordability gap" may be an effective tool to expand homeownership opportunity. A similar tax credit to the one in S. 1175

*Note: New applicants to the ACA program per HUD's revised program policy of September 13, 2002.

for people in Washington, DC has had success in increasing homeownership in the District.

S. 875 would provide additional resources to developers to enable them to provide new affordable for-sale housing. The subsidy the tax credit would provide would increase the availability of for-sale housing where little or no such housing exists.

As we noted in our written testimony, there is a severe shortage of affordable for-sale housing in many communities. According to Harvard's Joint Center for Housing Studies and the Brookings Institution:

> Many low-income renter households may be in a position to overcome the wealth and income constraints on buying a home, but will still be constrained by a lack of adequate housing units at an appropriate price in a desirable location. Supply side constraints on homeownership deserve greater attention from researchers and policymakers.
>
> Affordable homes for ownership are being lost to house price inflation and vacancies . . . On net there were about a half-million fewer affordable owner-occupied homes in 1999 than in 1997. The result, based on one set of underwriting assumptions, is that the share of owner-occupied homes affordable to low-income households fell from 47 percent to 44 percent of the stock from 1997 to 1999.
>
> When adjustments for variables that usually affect homeownership are made, the stock of homes plays a significant role in determining homeownership for low-income households. The presence of single-family and new homes contributes to higher homeownership by low-income households. Yet very few non-mobile units are being added to the stock at affordable levels. Policymakers need to recognize the failure of filtering as a mechanism to expand the supply of affordable homes.[4]

Several years ago, the National Housing Conference's Center for Housing Policy found that between 1997 and 1998, 200,000 working renter families in 17 major metropolitan areas could afford to purchase three-plus-bedroom houses priced between $50,000 and $75,000. But only 30,000 homes in that price range were available in those locations.[5]

Enterprise's experience is that the shortfall of for-sale housing is especially acute in low-income and minority neighborhoods. One of the biggest barriers to expanding the supply of affordable, for-sale homes in many of these communities is that it often costs more to build or rehabilitate housing than market prices will support. This market failure denies low-income people homeownership opportunity and prevents low-income neighborhoods from reaping the broader benefits that often accompany increased homeownership.

S. 875 would address this market failure by helping close the gap between development costs and market value of affordable, for-sale

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[4] Collins, Crowe and Carliner, "Supply Side Constraints on Low-Income Homeownership," in Retsinas and Belsky, eds., Low-Income Homeownership: Examining the Unexamined Goal, 2002, pp. 197–198.

[5] National Housing Conference Center for Housing Policy, Housing America's Working Families, 2000, p. 21.

housing in low-income areas. The proposal is based on the highly effective Rental Credit (LIHTC) and could do for homeownership what the Rental Credit has done for affordable apartment development. The Homeownership Credit has the same sound principles as the Rental Credit of State administration and flexibility, private sector competition and oversight and a strong role for community-based groups. The same highly efficient system of State administrators, corporate investors and community-based and for-profit developers that have made the Rental Credit so successful would readily embrace and effectively utilize the Homeownership Credit.

In addition to expanding homeownership opportunity for low-income people, the Homeownership Credit would help stabilize disinvested neighborhoods and contribute to their revitalization. The Credit recognizes the critical role homeownership can play in community development by targeting resources to low-income and economically disadvantaged communities, including rural and Native American areas. The Credit also would have significant economic benefits. The 50,000 homes it would produce each year would generate 122,000 jobs, $4 billion in wages and $2 billion in Federal, State and local revenue annually.

Importantly, S. 875 and H.R. 839 contain a small set-aside to help ensure community- and faith-based organizations have a fair chance to participate in the new program. Specifically, the bills provide that States must award at least 10 percent of their annual Homeownership Credit allocations to nonprofit groups.

The nonprofit set-aside would ensure the Homeownership Credit reaches the neediest people and communities. Faith-based and community groups are more likely to build housing in areas of high poverty, unemployment and housing costs. They are much more likely to develop housing for people with special needs, such as the homeless.[6] Even though they provide the hardest to produce housing, community-based groups are as cost-effective as for-profit builders doing less difficult developments. In evaluating performance with the rental housing credit, the General Accounting Office found "the difference in estimated per-unit costs for nonprofit and for-profit developers was not statistically significant."[7]

The set-aside also would help assure homeownership in healthy, holistic communities. Grassroots groups build communities as well as housing, as part of comprehensive revitalization efforts. In addition to for-sale homes, they produce rental apartments, start small businesses and develop retail centers. They help people get good jobs and move up the career ladder. They partner with police departments to make neighborhoods safer. And they provide essential services such as childcare, mentoring and financial literacy. These activities help ensure families and communities can fully benefit from homeownership opportunities.

Nonprofit set-asides are an established element of successful housing programs. The Rental Credit on which the Homeownership Credit is based requires States to award at least 10 percent of their annual supply of credits to qualified nonprofit organizations. The HOME housing block grant requires States and cities to award at

[6] See the General Accounting Office report, Tax Credits: Reasons for Cost Differences in Housing Built by For-Profit and Nonprofit Developers, October 1999.

[7] General Accounting Office, pp. 1–2.

least 15 percent of their annual grants to housing developed, sponsored or owned by qualified nonprofit organizations with community development experience and local accountability.

States still could allocate Homeownership Credits to grassroots groups without a set-aside and many probably would. But the set-aside sends a strong signal that *all States* must address their most difficult housing needs through the organizations most committed to solving them with a portion of limited Federal housing resources every year.

A small set-aside for community- and faith-based groups does not unfairly disadvantage for-profit developers. In 2001, States awarded more than two-thirds of their Rental Credits to for-profit developers. These figures do not include the $137 million in Rental Credits allocated in 2001 to bond-assisted developments, which are mostly done by for-profit builders.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM TERRI MONTAGUE

Q.1. I would like to ask each witness to share his or her general views of the HOPE VI Program. In addition, please address the impact HOPE VI may have on furthering the goal of low-income homeownership. Does HOPE VI help in this regard, either by making new units directly available to low-income buyers, or by improving the neighborhoods sufficiently to allow other homeownership efforts to succeed?

A.1. The HOPE VI public housing revitalization program has enabled local jurisdictions to form private-public partnerships to turn dysfunctional, detrimental living environments into healthier communities. As a community revitalization program, HOPE VI has had significant successes in many areas.

Enterprise strongly opposes the Administration's proposal to provide no funding for HOPE VI in its fiscal year 2004 budget request. We urge Congress to maintain HOPE VI funding at the fiscal year 2003 level of $574 million in the coming fiscal year. We have been pleased to work with HUD, Members of Congress and other program stakeholders to explore potential improvements to the program.

Congress designed HOPE VI to accomplish several purposes: 1) improve living conditions for public housing residents through demolition, rehabilitation and replacement of obsolete public housing; 2) revitalize distressed public housing sites and surrounding neighborhoods; 3) provide housing that avoids or decreases concentration of very low-income families; and 4) build sustainable communities. Homeownership directly contributes to the last three of those four objectives.

Not surprisingly, homeownership has been an important element of many HOPE VI communities. According to HUD, HOPE VI funds appropriated between 1993 and 2001 will support construction of 15,000 for-sale homes, in addition to 41,500 new public housing apartments. The for-sale housing includes market rate homes and homes affordable to low-income working families.

Enterprise has developed for-sale housing as part of two successful HOPE VI communities:

- In Baltimore, MD, the Heritage Crossing development will bring 185 for-sale homes (plus 75 rental apartments and a community center) to a site that was once home to one of the city's most dysfunctional, crime ridden public housing complexes. Homes at Heritage Crossing have sold for as low as $81,000 to buyers earning as little as $28,000 and as high as $130,000 to households earning as much as $70,000. Over 45 percent of the market-rate housing involves homebuyers coming from outside the city back into the city. This redevelopment continues Enterprise's groundbreaking work to revitalize mostly African American neighborhoods in West Baltimore.
- In Washington, DC, the Wheeler Creek development replaced abandoned, dilapidated public housing and FHA-insured apartment buildings with 314 new homes, including 104 for-sale homes and 30 "lease-purchase" homes that renters will buy after achieving sufficient savings, completing homeownership counseling and qualifying for a mortgage. First mortgages range from $45,000 to $145,000. Homes have sold to buyers earning between $18,000 and $150,000. The typical buyer has been a single mother earning $37,000.

Without HOPE VI, it is highly unlikely that either of these communities would have benefited from this scale of affordable homeownership development.

HOPE VI's support for comprehensive community revitalization is critical to its homeownership successes. By providing and attracting additional funds for rental housing, community facilities and supportive services, HOPE VI helps strengthen neighborhoods. Strong neighborhoods are essential for families to fully realize homeownership's broader benefits, especially wealth appreciation.

Recent research has found that HOPE VI developments in certain neighborhoods have been associated with lower crime rates and higher incomes, education levels and employment rates than were the case before redevelopment. HOPE VI also has spurred increased private investment in these communities. Significantly, both residential loan rates and single-family housing values in these HOPE VI neighborhoods have risen more quickly than in their cities overall. The researchers conclude that, "[a]lthough there are many non-HOPE VI factors contributing to change in these communities, the nature of HOPE VI development has helped determine the extent and pace of that change.[8]

For public housing residents HOPE VI's results are more mixed. The majority of residents live in better housing in lower poverty neighborhoods as a result of HOPE VI. Many more are employed now than before redevelopment, although the vast majority still has very low-incomes. Regrettably, a significant percentage of former residents still have housing problems or are simply unaccounted for.[9] These issues merit Congress' close attention.

Q.2. Ms. Montague, you raised some concerns in your testimony about the problems with the new rules for the Asset Control Area

[8] Zielenbach, The Economic Impact of HOPE VI on Neighborhoods, Housing Research Foundation, 2002, p. 3.

[9] See Popkin, et. al, HOPE VI Panel Study: Baseline Report and HOPE VI Resident Tracking Study, Urban Institute. 2002.

program. Please detail your concerns, and any proposals you may have to address the problems you have identified.

A.2. As we stated in our written and oral statement for the Committee, we generally have been pleased with HUD's Administration of the ACA program since the Department restarted it last fall. HUD staff in Washington and the regional Homeownership Centers generally have been responsive to specific (mostly technical) concerns we and other ACA participants have raised regarding the new ACA agreements for each jurisdiction.

Our most significant continuing concern with HUD is what we believe is the Department's narrow interpretation and implementation of the ACA program statute. HUD seems to view the ACA initiative strictly as an affordable homeownership program. ACA participants always have viewed the program as one that should help stabilize struggling communities through affordable homeownership. The later interpretation is consistent with the program's statutory purpose, which is: ". . .to require the Secretary to carry out a program under which eligible assets (as such term is defined in paragraph (2)) shall be made available for sale in a manner that promotes the revitalization, through expanded homeownership opportunities, of revitalization areas" [Section 204(h)(1)].

Over the past several years, ACA stakeholders have proposed to HUD a variety of regulatory provisions that would provide more flexibility to local governments and community-based groups to stabilize neighborhoods through homeownership. HUD has refused to implement most of these proposals. For that reason, we are seeking two simple statutory changes that would allow the ACA initiative to meet the statutory purpose Congress intended with the flexibility Congress provided.

The first change would enable ACA participants to sell rehabilitated homes for what they are worth. Under current HUD policy, ACA participants cannot sell rehabilitated homes for more than 115 percent of total development cost, even if this amount is below market value. This home sales-price limit is counterproductive and unnecessary. Selling homes for less than they are worth, especially in depressed markets, hampers neighborhood stabilization and may exacerbate market weaknesses—precisely the problem Congress created the ACA program to address. HUD's regulatory cap on eligible homebuyer income (115 percent of area median income) and narrow definition of allowable development costs (generally, acquisition price plus construction costs minus any public subsidy and certain soft costs and professional fees) contains costs.

The second change would provide ACA participants the flexibility to convert a limited portion of homes in their ACA's to rental housing for low-income people. In some ACA revitalization areas, two-, three- and four-unit properties constitute a substantial share of the government-owned vacant homes blighting the neighborhood. ACA participants are required to acquire and rehabilitate all "eligible assets" in their revitalization areas. Not all such multiunit properties are feasible for homeownership, however. Low-income, first-time homeowners may not be ready to assume the responsibilities and meet the requirements (significant in some cities) of being a landlord.

Unless ACA participants can convert these properties into affordable rental apartments for low-income people, which would have similar stabilizing effects for the neighborhood as homeownership, the properties will continue to blight the community. This change is consistent with the ACA statute, which authorizes the Secretary to modify or waive homeownership goals in an ACA business plan upon “a determination by the Secretary that a good faith effort has been made in complying with the goals through the homeownership plan and that exceptional neighborhood conditions prevented attainment of the goal” [Section 204 (h)(5)(A)(ii)].

Statutory language to enact these changes is attached.

Recommended ACA Statutory Changes

Amendments to the National Housing Act
Part VIII, Title 11, Section 204 (h)

Sales Price:

as new:

(J) SALES PRICE AFTER REHABILITATION. The average sales price after rehabilitation of designated properties sold in any calendar year shall not exceed 115 percent of eligible development costs as defined by HUD. Purchaser may elect to sell an individual property for more than 115 percent of eligible development costs provided that the 115 percent limit is met for the portfolio of sales reported by purchaser to HUD in each calendar year.

Multifamily Rental

add to existing: (5)(A)(iii)

The Secretary shall allow the preferred purchaser to rehabilitate a limited number of eligible assets in the revitalization area for rental housing for low-income people or sell such eligible assets for development of rental housing for low-income people, provided that rehabilitation of such eligible assets for homeownership is infeasible and rehabilitation of such eligible assets advances the purpose of stabilizing the revitalization area.

Q.3. The National Association of Homebuilders in its written statement argued against the set-aside for “tax-exempt developers” contained in the Homeownership Tax Credit legislation (S. 875 and H.R. 839). Habitat for Humanity expressed support for the provision in its statement. What is Enterprise’s view?

A.3. Enterprise strongly supports the small set-aside to ensure community-based organizations can compete fairly for homeownership credits in above-referenced bipartisan House and Senate bills.

As the Committee is aware, community organizations, including faith-based groups and Habitat affiliates, are the primary providers of affordable housing in many low-income urban and rural areas. The homeownership credit, if enacted, would enable these groups to continue their remarkable community and family renewal efforts provided grassroots groups are able to access this promising new tool.

S. 875 and H.R. 839 contain a small set-aside to help ensure nonprofit organizations have a fair chance to participate in the new program. Specifically, the bills provide that States must award at least 10 percent of their annual homeownership credit allocations to nonprofit groups. We believe this provision must be part of the legislation to enact the credit for three simple reasons.

Nonprofit set-asides ensure resources reach the neediest people and communities. Faith-based and community groups are more likely to build housing in areas of high poverty, unemployment and housing costs. They are much more likely to develop housing for people with special needs, such as the homeless.[2] Even though they provide the hardest to produce housing, community-based groups are as cost-effective as for-profit builders doing less difficult developments. In evaluating performance with the rental housing credit, the General Accounting Office found "the difference in estimated per-unit costs for nonprofit and for-profit developers was not statistically significant."[3]

Nonprofit set-asides assure healthy, holistic communities. Grassroots groups build communities as well as housing, as part of comprehensive revitalization efforts. In addition to for-sale homes, they produce rental apartments, start small businesses and develop retail centers. They help people get good jobs and move up the career ladder. They partner with police departments to make neighborhoods safer. And they provide essential services such as childcare, mentoring and financial literacy. These activities help ensure families and communities can fully benefit from homeownership opportunities.

Nonprofit set-asides are an established element of successful housing programs. The rental housing credit (Low-Income Housing Tax Credit) on which the homeownership credit is based requires States to award at least 10 percent of their anilual supply of credits to qualified nonprofit organizations. The HOME housing block grant requires States and cities to award at least 15 percent of their annual grants to housing developed, sponsored or owned by qualified nonprofit organizations with community development experience and local accountability.

States still could allocate resources to grassroots groups without a set-aside and many probably would. But the set-aside sends a strong signal that all States must address their most difficult housing needs through the organizations most committed to solving them with a portion of limited Federal housing resources every year.

A small set-aside for community- and faith-based groups does not unfairly disadvantage for-profit developers. In 2001 States awarded more than two-thirds of their rental housing credits to for-profit developers. These figures do not include the $137 million in credits allocated in 2001 to bond-assisted developments, which are mostly done by for-profits.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM TERRI MONTAGUE

Q.1. The Administration has requested no money for HOPE VI in its fiscal year 2004 Budget request. How will the elimination of

[2] See the General Accounting Office report, Tax Credits: Reasons for Cost Differences in Housing Built by For-Profit and Nonprofit Developers, October 1999.
[3] General Accounting Office, pp. 1–2.

HOPE VI affect the rate of homeownership among minority families? How will it affect the Enterprise Foundation's homeownership programs?

A.1. As noted in our response to Senator Sarbanes' first question, HOPE VI has directly supported 15,000 affordable for-sale homes. While this number of homes has had little impact on the national homeownership rate, HOPE VI is an important part of Federal homeownership policy. First, the families and communities that benefit from HOPE VI homeownership would likely not have realized those benefits without the program. Second, as noted in our response to Senator Sarbanes' question, HOPE VI development in some areas has been associated with higher housing values in the surrounding community. Third, public housing residents and low-income renters in HOPE VI redevelopments may be able to move into homeownership over time with sufficient supports, including homeownership counseling, as in Enterprise's aforementioned Wheeler Creek development. Eliminating funding for HOPE VI, as the Administration has proposed, would severely constrain Enterprise's ability to provide affordable for-sale housing in low-income areas.

For more general comments on HOPE VI, please see our answer to Senator Sarbanes' first question.

Q.2. The Administration also has proposed converting the Section 8 tenant-based voucher program into a block grant called "Housing Assistance for Needy Families" (HANF). How would this HANF proposal affect the rate of homeownership among minority families, including the use of Section 8 homeownership vouchers. How will this proposal affect the Enterprise Foundation's homeownership programs?

A.2. We are very concerned that the Administration's HANIT proposal would lead to substantially less funding for Section 8 vouchers over time. Funding for Federal block grants has not kept pace with inflation.[10] Apartment rents typically rise much faster than inflation. Less funding from a shrunken block grant would force local housing authorities to serve fewer families overall, provide less assistance to the neediest and/or increase housing cost burdens on voucher recipients. Any of these outcomes, which could apply to families receiving both Section 8 rental and homeownership assistance, would impose severe strain on low-income families' finances.

The Administration's HANF proposal also could undermine innovative uses of Section 8 for affordable homeownership—an Administration priority. Developers and lenders may be less likely to participate in a program, or only continue to participate at a premium, under a block grant with uncertain funding. We would be particularly concerned about the proposal's impact on initiatives such as our "Home of Your Own/Portland" partnership with the Federal Home Loan Bank of Seattle and the Housing Authority of Portland, which will enable low-income public housing residents to become first-time homeowners.

[10] According to the Center on Budget and Policy Priorities, aggregate funding for 11 major Federal block grants fell 11 percent after adjusting for inflation over the past decade. Excluding the child care block grant, for which funding increased substantially under welfare reform, funding fell 22 percent accounting for inflation. See Robert Greenstein's remarks at "Ending the Safety Net as We Know It?" symposium, June 13, 2003, www.brookings.edu.

In addition, the Senate version of the Administration's proposal (S. 947) would provide that families currently receiving Section 8 homeownership assistance would be guaranteed to continue receiving that same assistance for only 5 years, shorter than the typical mortgage term. Families that received Section 8 homeownership assistance after enactment of the block grant would have even less stability under the Senate bill.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM CATHY WHATLEY

Q.1. Ms. Whatley, as you are aware, immigrant and first-generation Americans will make up a significant share of any growth in minority homeownership. Since a real estate agent is often a consumer's first contact, could you share with the Committee some of the things Realtors are doing to make immigrant families more comfortable with the home buying process?

A.1. In 1998 NAR created the At Home with Diversity course which has provided over 10,000 REALTORS® with strategies, training and tools to reach emerging markets and expand homeownership. The course is intended to build diversity awareness and provide the skills, to more effectively communicate across cultural boundaries. Using the foundation of fair housing laws, the course helps REALTORS® develop personal and professional business strategies to reach out to minorities and immigrants in their communities. (See attached document.)

The course has two general thrusts. The first is to heighten the REALTORS® awareness of and sensitivity to the social and cultural constituencies of local real estate markets: who is there; what their values, customs, norms, and real estate needs are; and what they expect from the REALTORS®.

The second is to provide practical skills and tools to increase the professional's effectiveness in servicing all social groups, taking into account their cultural differences. Specifically, the course provides skills in cross-cultural communication and strategic business planning that together embrace the diversity of local real estate markets and bring real estate professionals and local communities into productive contact.

NAR issues a diversity certification, "At Home with Diversity: One America" to those licensed real estate professionals who meet the eligibility requirements and complete the course. The certification signals to customers that the real estate professional has been completely trained on working with diversity in today's real estate markets.

REALTOR® members spend time with minority customers to familiarize them with the entire real estate process, to assist them with understanding the loan process and often times to help connect them with various city or State programs that offer financial assistance and/or homeownership counseling. NAR has initiated the translation of many documents used in the real estate transaction process into foreign languages to help make them more understandable, especially at the local level for specific market needs. Also, one of NAR's public awareness radio ads has been produced in Spanish.

This year, NAR, along with The National Association of Real Estate Brokers, the National Association of Hispanic Real Estate Professionals and the Asian Real Estate Association of America entered into a historic partnership with HUD to promote fair housing and increase minority homeownership. This partnership builds upon our work with the White House and the HOPE Awards, which we jointly sponsor with these and several other minority real estate organizations.

The HOPE (Home Ownership Participation for Everyone) Awards recognizes up to seven organizations and individuals who are making outstanding contributions to increasing minority homeownership. We have honored organizations for their work advancing public policies to promote minority homeownership. For example, this year, the brokerage award went to Emily Moerdomo Fu of RE/MAX Greater Atlanta International. Minority homeownership always has been the focus of Emily Fu's company, which she located in Atlanta's Asian Square Shopping Center, where the Asian and Hispanic communities come together. Her staff speaks 16 different languages and comes from 19 different cultural backgrounds. The brokerage provides a full array of services and since 1990 has helped thousands of minority families close on their first homes.

Q.2. An innovative approach to leveraging existing housing programs in order to increase homeownership is use of the Section 8 Voucher program for homeownership. I know the National Association of Realtors continues to be a strong supporter of this program. Does the National Association of Realtors have any suggestions for improving the effectiveness of this program?

A.2. NAR is a strong supporter of the Section 8 homeownership program. This program allows people who may have thought they could never achieve homeownership become homeowners. We are strong advocates of this program, and applaud HUD's initiative in this area. However, only a small percentage of housing authorities are offering the program to their residents. We believe two factors are causing this.

First, housing authorities have limited resources with which to work. The Section 8 housing voucher program offers no additional fees to housing authorities despite an additional workload required to enact the program. While the down payment program provides a fee, the housing voucher program does not. We believe that additional responsibilities, administrative and operational, are required for both of these programs; and therefore, PHA's should not have to shoulder that burden alone. Given the positive policy implications of moving these families to homeownership, we believe PHA's should be compensated for their participation in either the housing voucher or down payment programs. In addition, potential housing voucher participants may need to be counseled through the home buying process, which is another cost the PHA may have to incur.

The second reason for a lack of usage of the program relates to a lack of understanding. Many housing authorities have never dealt with homeownership previously, and there is a lack of knowledge about the program. NAR has published a handbook (Section 8 Homeownership: A Guide for REALTORS®), which has been used by many housing authorities, local HUD offices, and REALTOR® associations nationwide. (See attached document).

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM CATHY WHATLEY

Q.1. I would like to ask each witness to share his or her general views of the HOPE VI Program. In addition, please address the impact HOPE VI may have on furthering the goal of low-income homeownership. Does HOPE VI help in this regard, either by making new units directly available to low-income buyers, or by improving the neighborhoods sufficiently to allow other homeownership efforts to succeed?

A.1. Neighborhoods are extremely complex environments subject to a variety of influences so it is rare for one program to have a disproportionate influence on its future shape and fortune. However, one such program may be HOPE VI. The program has helped to transform lives by increasing homeownership opportunities for low-income families and creating jobs and entrepreneurial activity in distressed urban and rural areas.

For example, a member of NAR's Housing Opportunity Program Advisory Board, Vincent White, is involved with a HOPE VI project called "The Villages of East Lake" in Wilmington, DE. The project is being built on the site of a former low-rise high-density public housing development called Riverside. The development consists of 80 public housing rental units, 90 affordable for-sale units and 24 market rate for-sale units. The development costs $32 million utilizing a number of Federal, State, and local programs such as FHA guaranteed mortgages, Federal Home Loan Bank's down payment and settlement assistance and/or Affordable Housing Program, subsidized purchase prices, silent second mortgages, State Revenue Bond Programs and homebuyer education and counseling. It is estimated that more than 35 former public housing residents and their families will have a place of there own secured via a deed within the next 24 months. In addition, they will be living in Delaware's first designed mixed-income neighborhood, with no discernible distinction between their home and that of the fair market value units.

An important component of the HOPE VI Program that has helped it succeed is the Family Self-Sufficiency Program. This program provides public housing residents the necessary training in budgeting, employment training and educational attainment that allow them to become good candidates for homeownership. It also mandates post homeownership counseling for up to 1 year after purchase.