

**Testimony on
America's Affordable Housing Crisis: Challenges and Solutions
before the
Senate Finance Committee
by
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Mr. Chairman, Ranking Member Wyden, and members of the Committee, thank you for this opportunity to testify on behalf of the National Council of State Housing Agencies (NCSHA) on our nation's critical need for affordable housing, the roles the Low Income Housing Tax Credit (Housing Credit) and tax-exempt private activity Housing Bonds (Housing Bonds) play in responding to that need, and how Congress can seize the opportunity of tax reform to further strengthen these programs.

I am Grant Whitaker, president and chief executive officer of the Utah Housing Corporation. I also have the privilege to serve as president of NCSHA, which is a nonprofit, nonpartisan, national organization created by the nation's state Housing Finance Agencies (HFA) more than 40 years ago to coordinate and leverage their federal advocacy efforts for affordable housing. In addition to NCSHA's advocacy work, the organization provides HFAs with education and training on the Housing Credit, Housing Bonds, and other federal housing programs.

HFAs are governmental and quasi-governmental, nonprofit agencies that address the full spectrum of affordable housing need, from homelessness to homeownership. HFAs effectively employ the Housing Credit and Housing Bonds, entrusted by Congress to state administration, to advance their common public-purpose mission of providing affordable housing to the people of their jurisdictions who need it.

Thank you, Mr. Chairman for your steadfast leadership in support of the Housing Credit and Housing Bonds over many years. I also want to thank Senator Maria Cantwell (D-WA), who too has been a true champion of these crucial housing programs and a tireless advocate for low-income households who need housing help. Together, you have introduced the most important housing legislation Congress has considered in many years, S. 548, the Affordable Housing Credit Improvement Act. NCSHA strongly supports your bill, which would increase Housing Credit authority, facilitate Housing Credit development in challenging markets and for hard-to-reach populations, support the preservation of existing affordable housing, and simplify program requirements.

NCSHA also thanks Committee Ranking Member Ron Wyden (D-OR) and Committee members Dean Heller (R-NV), Michael Bennet (D-CO), Rob Portman (R-OH), and Johnny Isakson (R-GA) for their cosponsorship of this legislation. We urge all senators to become cosponsors.

The Housing Credit has long enjoyed strong bipartisan, bicameral support, and this bill is no exception. Already, approximately one-third of the Senate has either cosponsored the Affordable Housing Credit Improvement Act or declared their intention to do so. Its House companion legislation, H.R. 1661, also enjoys significant bipartisan backing in that chamber, including cosponsorship by over half of the Ways and Means Committee, with near equal numbers of Republicans and Democrats.

In addition to strong support in Congress, more than 2,000 local, state, and regional organizations and businesses nationwide support this legislation as members of the A Call To Invest In Our Neighborhoods (ACTION) Campaign. NCSHA is proud to co-chair this important grassroots coalition, which advocates in support of protecting, expanding, and strengthening the Housing Credit.

Given this broad support, we urge the Committee to include this important bill in any tax legislation it considers.

The Need for Affordable Housing Is Great and Growing

The need for affordable housing across the country has reached crisis proportions, and is growing substantially. Nearly half (48 percent) of renters in the U.S. pay an excessive share of their income for housing. The crisis is most acute for those earning the least. Of those renter households with annual incomes of \$15,000 or less—approximately equivalent to working full-time at the minimum wage—83 percent pay more than 30 percent of their income for housing, and 70 percent devote more than half of their income to housing. This leaves little money left over for other critical necessities like food, transportation, childcare, healthcare, and utilities.

The housing crisis affects both homeowners and renters. For many low- and moderate-income borrowers, purchasing a home is by far their best opportunity to build wealth, yet these families face significant challenges as they seek to achieve homeownership. Even as the housing market strengthens, many creditworthy home buyers, especially first-time buyers, struggle to obtain mortgages they can afford. According to the most recent data from the National Association of REALTORS®, first-time home buyers accounted for only 33 percent of home purchases in May and 32 percent of home purchases in June, compared to the 40 percent historical average.

As more and more people turn to the rental market, they find a severe shortage of affordable homes. Those available to extremely low-income (ELI) households, those earning 30

percent or less of Area Median Income (AMI), are especially scarce. Nationwide, there are 11.4 million ELI renter households, but only 4 million rental homes affordable and available to them, leaving a gap of 7.4 million needed homes. The rental shortage is exacerbated as hundreds of thousands of new renter households enter the market each year, while the nation loses countless affordable units from the housing stock due to conversion to market rate rentals or condominiums, demolition, or obsolescence.

The housing crisis impacts working families, seniors, people with disabilities, and so many more across the country—those living in high-cost cities, in suburban neighborhoods, and in rural communities. Coastal cities like New York, San Francisco, and Seattle are well known for their extreme housing costs.

But, I speak from experience when I say that low-income households in Utah face immense struggles to find affordable housing, too. Over 58,000 renter households living in Utah pay more than half of their income for housing. Those most in need are extremely low-income renters, for whom there is an estimated affordable rental housing shortage of over 38,000 units.

I know from my conversations with my colleagues at HFAs across the country that what we face in Utah is not unique. Every state confronts this challenge.

This crisis will only get worse unless we act. According to research by Harvard University's Joint Center for Housing Studies and Enterprise Community Partners, if current rent and income trends continue, the number of severely cost-burdened renters—those paying 50 percent or more of their income for rent—will reach 14.8 million nationwide by 2025. That is 25 percent more severely cost-burdened households than we have today.

While the Housing Credit and Housing Bond programs are extraordinarily successful, the resources devoted to them are woefully insufficient to meet the nation's affordable housing needs of today, let alone those of tomorrow.

The Housing Credit and Housing Bonds: Our Nation's Most Effective Response to the Affordable Rental Housing Crisis

The Housing Credit and Housing Bonds are the most important tools we have to address the affordable housing shortage. These programs are highly successful public-private partnerships that draw on state HFAs' sophisticated underwriting, asset management, and oversight capacity as well as private sector expertise and investment. Without question, the Housing Credit and Housing Bonds are the most effective means of targeting limited affordable housing resources to the people and places that need them, while transferring risk to private sector investors.

Since the Housing Credit's establishment in the Tax Reform Act of 1986, it has financed roughly 3 million affordable rental homes for low-income families, seniors, veterans, and those with special needs. Approximately 40 percent of these rental homes are financed with 4 percent Housing Credit authority, which is triggered by the use of multifamily Housing Bonds and therefore is not subject to the Housing Credit volume cap. These homes would not exist were it not for those bonds. In addition to the rental homes financed with both the 4 percent Credit and Housing Bonds, HFAs also finance affordable rental housing properties with multifamily Housing Bonds alone.

These programs transform lives by creating quality, affordable living environments that lift up families; help children thrive; support seniors, people with special needs, and veterans; and permanently house persons at risk of or experiencing homelessness. They contribute to community revitalization by inspiring business growth, infrastructure advances, transportation solutions, and much more.

State HFAs are proud, not only of the high quality, sustainable housing we help produce with the Housing Credit and Housing Bonds, but also of our strong program administration. We take very seriously our responsibility for program operation and oversight, as entrusted to states by Congress. We steadfastly enforce federal program rules, developing statewide allocation plans with extensive public input; allocating to developments only the amount of Credit necessary to ensure their feasibility and long-term viability; serving only income-qualified households and the lowest income people we can possibly reach; ensuring the financial and physical health of the properties for the duration of their affordability periods through regular and thorough inspections; and reporting noncompliance to the IRS.

States often exceed federal requirements, collaborating on the development through NCSHA of national recommended practices in Housing Credit administration that set very high standards, while preserving the genius of the program's devolved design that allows states to determine their highest and best use of Credit authority within broad and appropriate federal mandates. Strong state administration has been cited by the U.S. Government Accountability Office in the past and in its most recent Housing Credit study on state administration released in 2016.

Affordable Housing Successes and Challenges in Utah

We have had significant success in Utah using the Housing Credit and Housing Bonds. I am pleased to say that, with these programs, we have made considerable progress in reducing our chronically homeless population. Just last week, my board voted to devote 30 percent of our 2018 Housing Credit authority to supportive housing projects that will move us closer to the goal of ending chronic homelessness in Utah.

We are particularly proud of projects such as the Kelly Benson Apartments, a supportive housing development for seniors in Salt Lake County. Many of its residents are formerly homeless veterans who have struggled with physical and mental health challenges and drug and alcohol addictions. This property serves seniors earning 35 percent of the AMI or less and offers supportive services to those who need extra help getting through the day or night. Resisted by the community at first, the project is now considered a neighborhood jewel.

But, we still have significant work ahead as we seek to tackle family homelessness and help the many other low-income households in our state who are housed, but pay more than they can afford for rent. The fact is we simply do not have enough resources to meet our affordable housing needs. In 2017, Utah Housing Corporation received 22 proposals for Housing Credit developments in our competitive 9 percent Housing Credit round, requesting a total of \$14,631,181. But, with our limited Housing Credit authority, we were able to fund just 12 of them.

Affordable Housing Is a Vital Part of a Pro-Growth Tax Code

Congress is embarking upon one of the most significant and challenging endeavors of recent decades—reform of the federal tax code to create a tax system that better promotes economic growth. As it pursues this goal, we urge Congress to consider how it can strengthen our nation’s housing infrastructure, as housing is the foundation for an economically vibrant country.

The use of the tax code to provide affordable housing—both through the production and preservation of affordable rental properties with the Housing Credit and multifamily Housing Bonds and through the provision of lower cost mortgages for working families with single-family Housing Bonds (under the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs)—has been one of the singular successes of the current system.

The housing stability that can be achieved through the Housing Credit and Housing Bonds creates better health outcomes, improves children’s school performance, and can help low-income individuals gain employment and keep their jobs. And, the production and preservation of affordable housing helps drive economic growth, through job creation and the generation of tax revenues at all levels of government.

Sadly, the affordable housing crisis we face now is exacting an economic toll on our nation. Homelessness and hypermobility suffered by unassisted low-income families have dire consequences for children’s educational attainment. Numerous studies show that children who move frequently—as they often must without stable housing—are more likely to drop out of school, repeat grades, perform poorly, or have numerous school absences compared to those with stable housing. The social and economic cost of this effect on children’s lives is immeasurable. Sadly, there were nearly 25 million children living in households with cost burdens as of 2015.

Affordable housing also can promote economic mobility. A recent Harvard University study, *The Equality of Opportunity Project*, found that moving younger children from a high-poverty neighborhood to a more integrated, lower poverty neighborhood improves their chances of going to college, lowers their risk of becoming a single parent, and increases their expected income as an adult by as much as 30 percent. Housing production programs, such as the Credit and Bonds, which build and preserve affordable housing in lower poverty neighborhoods, are critical to achieving these results.

Affordable housing sited near transportation and areas with employment opportunities as part of larger redevelopment plans provides low-income households with better access to work, which increases their financial stability and may help them eventually achieve independence from government assistance. It also provides employers in those areas with needed labor.

Not only do affordable housing programs deliver immeasurable benefits to the low-income households for whom they provide homes, they also have an enormous immediate impact on the economy through the creation of jobs and generation of tax revenue. The Housing Credit supports approximately \$3.5 billion in federal, state, and local taxes; \$9.1 billion in wages and business income; and 95,700 jobs across various U.S. industries every year. The National Association of Home Builders estimates that in its first year, a typical 100-unit Housing Credit property on average provides \$8.7 million in additional wages for local workers and business profits; creates \$3.3 million in additional federal, state, and local tax revenue; and supports 116 jobs.

Housing Bonds also have a profound economic impact. According to models formulated by the National Association of Home Builders and the National Association of REALTORS®, in the 10-year period from 2006 to 2015, state HFA MRB homeownership programs generated almost 50,000 jobs annually. Multifamily Housing Bonds also spur important economic growth. Over the same period of time, state construction and rehabilitation of apartments financed with HFA multifamily Housing Bonds generated approximately 27,000 jobs and added over \$2 billion to GDP annually on average.

Preserve, Expand, and Strengthen the Housing Credit

Since the Housing Credit's creation over 30 years ago, Congress has acted several times to strengthen and refine it so that the program is equipped to meet new and changing housing challenges. As you now consider changes to the current tax structure, NCSHA urges you to use this opportunity to build on what works, not only by preserving the Housing Credit program, but also by expanding Credit resources so that we can better address the nation's severe affordable rental housing shortage, and by enacting policy modifications to strengthen this already highly successful program.

Passing Senator Cantwell and Chairman Hatch's Affordable Housing Credit Improvement Act, S. 548, is essential to addressing the affordable housing crisis. The lynchpin provision of this legislation would expand the Housing Credit authority each state receives by 50 percent over five years. This cap increase would allow states to make meaningful progress towards meeting the housing needs of their low-income residents. We know that Congress faces extraordinary pressure as it directs limited federal resources to so many priorities. However, we strongly believe that investing new resources in the Housing Credit makes sense, even in this time of budget austerity.

Each year, state Housing Credit allocating agencies receive applications requesting nearly three times more Housing Credit resources than agencies have to allocate. Yet even this does not quantify the extent to which demand for affordable rental housing outstrips the supply of Credits, as many developers with worthwhile projects do not even bother applying because the competition for Credit is so fierce.

State Housing Credit allocating agencies face difficult choices—not just whether to direct their limited Credit resources to preservation as opposed to new construction, but also whether to commit them to rural rather than urban areas or to neighborhood revitalization rather than to projects in high-opportunity areas. Agencies must balance whether to finance supportive housing for persons experiencing homelessness against assisted living for the elderly, housing for needy families, and projects for veterans—all of which serve populations with extraordinary housing and service needs.

Reliance on the Housing Credit to meet the needs of so many populations has only grown as federal resources for housing programs funded through the appropriations process have shrunk. Funding for the HOME Investment Partnerships (HOME) program has been cut by nearly half since 2010. HOME has long been a critical source of gap financing in Housing Credit developments, and without adequate funding for it we must rely even more on Housing Credit equity to build those properties.

Moreover, the federal government in recent years has turned to the Housing Credit time and again to achieve other federal priorities such as transforming the nation's public housing through the Rental Assistance Demonstration (RAD) program and producing housing for persons with disabilities in conjunction with the Section 811 Project Rental Assistance program. Congress has already raised the cap on public housing units eligible for RAD multiple times, and the Administration this year proposed to eliminate that cap entirely. Moreover, Congress is now considering allowing Section 202 elderly housing properties with Project Rental Assistance Contracts also to become eligible for RAD. Those public housing and Section 202 properties will likely need to rely on the Housing Credit for the equity necessary to undertake the RAD transition. There simply are not enough Housing Credit resources to meet all these demands.

In addition to the increase in authority, NCSHA strongly supports other provisions of the Affordable Housing Credit Improvement Act that would strengthen the bond-financed portion

of the Housing Credit program; amend the Housing Credit income limits to allow for income averaging, thus allowing low-income families earning up to 80 percent of AMI access to Credit properties, while improving affordability for ELI households; provide parity in Housing Credit income rules for rural properties; simplify complex program rules, such as the Housing Credit student rule; and establish a state-determined basis boost of up to 50 percent for units in Housing Credit properties reserved for ELI households. These, and all of the bill's other provisions, would make an already successful program even more so.

Lastly, we also ask that you be mindful of the impact other changes you may make to the tax code could have on the Housing Credit and Housing Bonds, and seek to prevent any unintentional negative effects those tax changes could have on these programs.

Preserve the Tax-Exempt Private Activity Housing Bond Program

For decades, the Housing Bond program—multifamily bonds for financing affordable rental housing and the MRB and MCC programs for financing affordable first-time, modest home purchases—has been an essential and successful tool in our affordable housing efforts. While these bonds are private activity bonds (PAB), Congress deemed that the affordable housing they make possible is worthy of a tax exemption, not just because of the direct housing benefits these bonds provide but also because of the positive effects the housing opportunities they create have more broadly on families, communities, and the economy.

In recent years, a few tax reform proposals have been advanced, both in Congress and from outside experts, which would eliminate the tax deduction for interest on PABs while maintaining the exemption for other municipal bonds. This would be a mistake, and would drastically set back our efforts to provide affordable housing to those in need.

While it is true PABs provide direct financing to private entities, the bonds fulfill a very important public purpose that the market is often unable to meet. This is certainly the case with Housing Bonds. In addition to affordable housing, PABs support many other critical public priorities, such as financing for airport renovations, sewage facilities, public power, and affordable student loans. Simply put, repealing or limiting the tax exemption for PABs would severely hamper state and local governments' efforts to support affordable housing and other locally determined priorities.

The Housing Bond market, like many financial markets, has not fully recovered from the financial, housing, and broader economic crises of recent years. The historically low interest rates we have experienced during the recovery have hampered further the Housing Bond market by greatly reducing the Housing Bond tax-exempt interest rate advantage. However, interest rates now are beginning to rise and are likely to continue to climb.

As we enter a more typical interest rate environment, the tax exemption afforded to Housing Bonds will be even more critical to helping lower income home buyers purchase their first homes. Already, the market for Housing Bonds has strengthened. The most recent available data shows that in just one year—from 2013 to 2014—state HFA bond issuance jumped by 39 percent, as demand for tax-exempt bond-financed housing grew. At this pace, we fully expect the PAB cap soon will be fully subscribed in most states—and oversubscribed in some—just as it has been historically.

Given the considerable need for more bond authority in many states, we hope to explore with the Committee a mechanism—not unlike that which already exists for the Housing Credit—for the redistribution of expiring bond authority to those states that are using all of their authority.

In Utah, our Housing Bond programs are well oversubscribed. We could easily use 3 times our allotment for MRBs, and demand for multifamily Housing Bonds has been staggering as well.

Streamline and Simplify the Housing Bond Program

NCSHA recommends Congress take a few modest steps to make the highly successful Housing Bond program even more effective. With tax reform, Congress has the opportunity to further strengthen Housing Bonds by making low or no cost changes to eliminate outdated rules and to give states more flexibility to respond to their unique needs and circumstances. For example, within the MRB program, the purchase price limit is no longer needed, as the income limits Congress later imposed much more effectively control the price of homes MRB borrowers can purchase. The considerable resources HUD and Treasury expend coming up with the purchase price limits annually could be deployed elsewhere.

In addition, the MRB home improvement loan program, especially important now given the repair needs of foreclosed properties and the home maintenance families were forced to defer during the recession, would be much more useful if Congress increases its loan limit of \$15,000 by an amount at least adequate to reflect the rise in construction costs since it was first established in 1980 and indexes that limit to keep up with construction cost inflation annually. We also encourage Congress, as it did on a temporary basis from 2008 through 2010, to allow state HFAs to use MRBs for refinancing, so state HFAs can help otherwise qualified borrowers.

In addition, we urge you to adopt proposals that would improve investor interest in the Housing Bond program. For example, NCSHA supports exempting interest earned on refunding Housing Bonds from the Alternative Minimum Tax. Conversely, we urge you to resist proposals that would undermine investor interest in Housing Bonds, such as limiting the value of the municipal bond interest deduction to a lower tax rate, as this would greatly diminish the value of Housing Bond investments and, consequently, investor interest in them.

We also have several suggestions for simplifying the MCC program, which the tax code provides as an alternative to MRBs and which states utilize more when the Housing Bond rate advantage is limited, as it has been in recent years. MCCs help lower income families afford homeownership by allowing first-time home buyers who meet the MRB program's income requirements to claim a dollar-for-dollar tax credit for a portion of the mortgage interest they pay each year, up to \$2,000. Specifically, we urge you to simplify the MCC calculation; permit HFAs to recycle MCCs, as you allow them to recycle Housing Bonds; provide HFAs the flexibility to shorten the MCC term and/or "front load" its benefits; eliminate the \$2,000 annual credit cap on MCC benefits; and provide HFAs the flexibility to structure the MCC assistance to respond to diverse home buyer needs. We would be happy to provide further detail on any of these proposals.

Thank you for your commendable efforts to support affordable housing. I am honored to have had this opportunity to testify before the Committee to provide NCSHA's and my own state's perspective on the effectiveness of the Housing Credit and Housing Bond programs, and on how the Committee can strengthen these programs. NCSHA and its member HFAs stand ready to assist you in any way we can.