Testimony of Dianne Bolen
Executive Director, Mississippi Home Corporation
Before the Senate Finance Committee
October 6, 2005

Mr. Chairman, Senator Baucus, and distinguished Members of the Committee:

My name is Dianne Bolen, Executive Director of the Mississippi Home Corporation (MHC). MHC was created by the State of Mississippi as a non-profit housing finance agency to provide the opportunity for safe, decent and affordable housing for all Mississippians. As Mississippi's housing finance agency, MHC administers federal, state and corporate programs relating to housing and furthering the mission of the Corporation.

I appreciate the opportunity to appear before this committee to discuss the housing needs in Mississippi as a result of Hurricane Katrina and how Congress can assist Mississippi in rebuilding the Gulf Coast. Hurricane Katrina struck the State of Mississippi on August 29, 2005. The storm wrought significant devastation not only to Mississippi's Gulf Coast communities, but also throughout other areas of the State. As a result of Katrina's incursion into Mississippi, many of the State's residents find themselves with homes completely destroyed or having sustained significant damage. Many of these residents had no flood insurance.

In the hardest-hit areas of the State, residents still lack water, power, telephone service and basic infrastructure. While debris removal efforts are underway and crews are attempting to restore basic services, the rebuilding process cannot begin immediately. By taking action now using some of the following recommendations, Congress would allow MHC to be ready to finance the construction and purchase of single and multifamily housing units when the Gulf Coast becomes ready to receive its residents.

As of October 2, 2005, 466,000 individuals and families have registered with FEMA, of which 321,000 have been referred for housing assistance. While this does not mean all will qualify for housing assistance, it does provide a preliminary estimate upon which we can base our expectations. More accurate damage assessments are unavailable at the present time. According to the 2000 Census, the total number of housing units of the three Gulf Coast Counties, Jackson, Hancock and Harrison, is 136,111. Of these units, 93,823 are single family owner-occupied houses and 42,288 are rental units. We can conservatively estimate that roughly one-third of the total housing inventory in these Gulf Coast counties—approximately 31,000 single family owner occupied units and approximately 14,000 rental units—have been completely destroyed.

MHC administers several federal programs at the State level, including the Mortgage Revenue Bond program, the Housing Tax Credit program and the Mortgage Credit Certificate program. Because of MHC's experience in affordable housing finance administration in Mississippi for the past twenty years, we are uniquely qualified to aid in the recovery process. In order to use our resources most effectively, we recommend making temporary changes to the Mortgage Revenue Bond program and the Housing Tax

Credit program in order be better prepared to meet the housing needs of the State's residents once they begin to return to the coast.

The following recommendations will allow the Mississippi Home Corporation to quickly and effectively act to meet the housing needs of the hurricane-affected areas of the State:

Housing Tax Credit

- Provide Mississippi with additional Housing Credit authority without reducing authority available to other states. Congress should triple Mississippi's annual per capita Housing Credit allocation for the next five years in order to encourage and accelerate rental housing development in hurricane-affected areas. Under the current $1.85 annual per capita allocation, Mississippi receives $5.4 million in Housing Credits annually, which produces about 600 rental units and satisfies only one-third of the state's demand for Credits.

- Designate all Mississippi counties Difficult to Develop Areas (DDAs) for the next five years. At a minimum, Mississippi counties eligible for FEMA Individual and Public Assistance should be granted DDA status. Housing Credit properties located in DDAs—areas with high construction, land, and utility costs relative to median income—are eligible for a 30 percent increase in eligible basis for the purpose of calculating their Credit awards, allowing development of properties that are otherwise financially infeasible. The National Association of Home Builders predicts a 20 percent increase in building costs in Hurricane Katrina-affected areas.

- Allow the award of additional Credits to properties in DDAs—beyond amounts necessary for their development—to provide rental assistance for very low- and extremely low-income families, administered by MHC.

- Allow MHC to amend, with the prior approval of the governor, its Qualified Allocation Plan, without undertaking a public hearing process, so MHC can respond quickly to changing needs and priorities.

Multifamily Bond Issuance

- Provide the Secretary of Treasury explicit authority to promulgate regulations suspending Housing Credit income requirements and occupancy rules in tax-exempt bond financed properties. Treasury and IRS have issued regulations suspending Housing Credit income and occupancy rules to allow Credit property owners to immediately house Katrina victims. However, Treasury says it lacks the authority to extend similar relief to tax-exempt bond-financed Housing Credit apartments.

Mortgage Revenue Bonds

- Substantially increase Mississippi's private activity bond volume cap in each of the next five years to respond to increased housing, industrial development, and other demands. Based on Mississippi's Mortgage Revenue Bond Program for 2005, the average home price was $98,000, which based on a $100,000,000 Bond Issue would yield 1,021 homes. This does not take into account any rise in the cost of construction. The Mississippi Home Corporation (MHC) currently has approximately $200,000,000 in carryforward private activity cap and another $200,000,000 in Recycled bonds that it can use toward rebuilding the Coast. This amount would provide funding for the purchase of 4,084 homes. MHC typically issues between $100,000,000 to $125,000,000 in Mortgage Revenue Bonds on an annual basis.

- Expand and extend the MRB relief Congress provided in the recently enacted tax relief bill, H.R. 3768. That legislation waives the first-time home buyer requirement in Mississippi's disaster areas and for individuals whose homes Hurricane Katrina destroyed. It also raises the MRB home improvement loan limit to $150,000 for the repair of residences damaged by Hurricane Katrina. These provisions, set to expire on January 1, 2008, should be extended through December 31, 2010. MHC also asks Congress to increase the MRB income limits to 120/140 percent of the greater of statewide or county median income (consider disaster counties target counties for income purposes) for homes financed in Mississippi's disaster areas for a period of five years, as the Finance Committee has proposed. At a minimum the increased income should apply to individuals whose homes were destroyed or damaged by water and were not covered by their Homeowners Insurance Policy and had no flood insurance because they were not in a flood plain. The increase in income limits would mean that for the three coast counties, the limits would go from a range of $46,900 (one to two in family) to $53,935 (Three or more in family) to a range of $56,280 to $65,660. The majority of the disaster counties would go from a range of $40,700 to $46,805 to $48,840 to 56,980.

- Allow 100 percent financing on 203 (b) FHA-insured MRB loans. FHA generally requires 3 percent of the home's selling price as a down payment. FHA does have a 100 percent loan for disaster areas called the 203 (h). Lenders are not familiar with this loan product and its requirements. It would be more efficient and cost effective to allow 100 percent financing of the 203 (b) for a period of three to five years for the disaster areas.

- Exempt tax-exempt housing bonds issued by state or local housing finance agencies to support the rebuilding effort from the Alternative Minimum Tax (AMT). Current law provides that interest on private activity bonds is exempt from regular income tax but not the AMT. AMT relief will lower bond yields, allowing MHC to provide MRB mortgages at lower interest rates. By allowing bonds to be issued outside the AMT you also increase the pool of investors buying the bonds. The bonds would yield a 20 to 25 basis point reduction in price that would be passed on to the Home Buyer in the form of a lower mortgage loan rate of 20 to 25 basis points generating a savings over the life of the loan of approximately $6,000. For lower income Home Buyers this can also mean the difference in qualifying for the loan or not qualifying.

- Do not count tax-exempt bonds purchased by corporations in support of the rebuilding effort against their two percent ("de minimis") safe harbor limit. Freddie Mac has agreed to buy one billion in Mortgage Revenue Bonds from Mississippi, Louisiana, and Alabama by as much as twenty-five basis points below market cost that translates into a twenty-five basis point lower mortgage loan rate to the Home Buyer. MHC is currently working with Freddie Mac on the purchase of our next Bond Issue. As a result of having a known buyer, MHC will be able to reduce the cost associated with Underwriter Fees.

- Direct the IRS to suspend temporarily Purchase Certification documents required to re-verify bond loan compliance in counties eligible for FEMA Individual and Public Assistance, while requiring these documents to be produced as soon as reasonably possible. These documents include the Lender's Closing Certificate, Borrower's Affidavit Part II, Affidavit of Seller, and a copy of the HUD-1. MHC is finding that many lenders and attorneys on the Coast have lost all their original documents due to the flooding.

Other Proposals

- Provide developers a single-family tax credit for building homes in FEMA Individual and Public Assistance designated counties for purchase by families with incomes of 120/140 percent (Target Area Requirements) of area median income or less.

- Make Housing Credit and Bond disaster relief permanent to expedite the housing response to future natural disasters.