



National Council of
State Housing Agencies

April 14, 2015

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Chairman
Financial Services Subcommittee on
Housing and Insurance
U.S. House of Representatives
Washington, DC 20515

The Honorable Emanuel Cleaver
Ranking Member
Financial Services Subcommittee on
Housing and Insurance
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling, Ranking Member Waters, Subcommittee Chairman Luetkemeyer,
and Subcommittee Ranking Member Cleaver:

On behalf of our state Housing Finance Agency (HFA) members, the National Council of State Housing Agencies appreciates this opportunity to provide information on how HFAs partner with the private sector to provide affordable housing for low-income households using programs such as the HOME Investment Partnerships Program (HOME), the Low Income Housing Tax Credit (Housing Credit), and tax exempt private activity Housing Bonds. We hope you will find this helpful as you prepare for the Housing and Insurance Subcommittee hearing on *The Future of Housing in America: Increasing Private Sector Participation in Affordable Housing* scheduled for Thursday, April 16.

HFAs administer a wide range of affordable housing and community development programs, including HOME, Section 8, homelessness assistance, down payment assistance, state housing trust funds, tax-exempt Housing Bonds, and the Housing Credit. HFAs effectively employ these resources to advance their common public-purpose mission of providing affordable housing to the people of their jurisdictions who need it.

Without question, the private sector plays a central role in the delivery of the affordable housing state HFAs finance. Private sector entities develop, manage, and invest in affordable rental properties financed with HFA-administered programs, while HFAs set state affordable

housing priorities, underwrite the properties, and ensure compliance with statutory and regulatory requirements.

HOME, the Housing Credit, Housing Bonds, and other affordable housing programs have proven to be powerful catalysts for private sector investment and involvement in affordable housing. Absent incentives such as these programs, it simply does not make economic sense for the private sector to finance affordable housing, as the rents low-income people are able to pay are insufficient to cover debt service and operational needs, let alone provide a profit for investors. In short, private sector participation in affordable housing depends on public sector investment.

HOME

HOME is an essential tool for responding to the whole spectrum of need, from homeownership to rental, from urban to rural areas, and all low-income populations, including persons experiencing homelessness, veterans, families with children, the elderly, and persons with disabilities. It often provides the early money necessary to get developments off the ground or the final critical gap financing that allows housing financed primarily with the Housing Credit or multifamily tax-exempt bonds to reach even lower income populations. In fact, HOME funds provided essential gap financing in more than a quarter of the Housing Credit developments targeted to addressing homelessness from 2003 to 2010.

HUD's February 2015 HOME National Production Report shows that since 1992, states and localities have used HOME funds to produce more than 1.1 million affordable homes, including 495,609 homebuyer homes, 466,861 rental homes, and 231,928 rehabilitated owner-occupied homes. Another 298,391 families have received tenant-based rental assistance through the HOME program. HOME consistently has exceeded its income targeting requirements by assisting families with incomes significantly below the statutory limits. For example, 40 percent of those assisted with affordable rental housing during the past five years were extremely low-income families (at or below 30 percent of AMI).

HOME also has a proven track record of leveraging private sector investment. For every \$1 of HOME funds, states and localities leverage \$4 in other private and public resources—a \$117 billion investment since HOME was created. In addition to providing needed affordable housing, HOME funds contribute to job creation, especially in the hard-hit construction sector. Every \$1 billion in HOME spending creates or protects approximately 18,000 jobs.

The Housing Credit

The Housing Credit is the principal source of financing for nearly all of the affordable rental housing developed over the last three decades. It combines state HFAs' sophisticated

underwriting and asset management capacity with private sector ingenuity, expertise, oversight, and vigilance. Private sector investors provide upfront equity capital for Housing Credit properties in exchange for a credit against their future tax liability. This model transfers the real estate risk from the taxpayer to the private sector investor. In the rare event that a property falls out of compliance anytime during the first 15 years after it is placed in service, the IRS will recapture the investor's Housing Credits.

By providing an incentive for private sector investment, the Housing Credit has financed nearly 2.8 million apartments for low-income families, seniors, veterans, and those with special needs. Each year, the Credit is responsible for the construction or preservation of approximately 100,000 units.

The Credit generates approximately \$7.1 billion in income and 95,000 jobs per year across many U.S. industries. 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

Housing Bonds—including multifamily housing bonds used to finance rental housing production and the Mortgage Revenue Bond (MRB) program—which makes homeownership possible for first-time lower-income home buyers—are essential to our efforts to help low- and moderate-income families find affordable housing. While Housing Bonds are issued under “private activity” bond authority, they clearly support the achievement of a vital public purpose.

Private investors in Housing Bonds are willing to accept a lower rate of return than they would get on other investments because the interest on the bonds is exempt from federal income tax. The lower rate is then passed on to reduce the interest rate paid by lower-income home buyers in the case of MRBs and developers of affordable rental housing in the case of multifamily bonds.

According to models formulated by the National Association of Home Builders and the National Association of REALTORS®, in the ten-year period between 2004 and 2013, state HFA MRB homeownership programs generated over 61,000 jobs annually on average and added over \$6.5 billion yearly to the national economy. Multifamily bonds also generated important economic growth. Over the same period of time, according to those models, construction and rehabilitation of rental homes financed with HFA multifamily bonds generated approximately 29,778 jobs and added over \$2 billion to GDP annually on average.

State HFAs use the HOME, the Housing Credit, and Housing Bonds together and separately to address critical housing needs. All are exemplary examples of public-private

partnerships, stimulating private sector investment in housing for people of modest means. Unfortunately, under current Housing Credit cap and HUD funding constraints, there simply are not enough Housing Credit and HOME resources to meet our nation's affordable housing needs, which are great and growing. Expanding the resources available to these programs would encourage more private sector participation in the affordable housing market.

Attached for your reference are NCSHA-developed background papers on HOME, the Housing Credit, and Housing Bonds. Please do not hesitate to contact me if you need any further information about these or other state HFA-administered programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth B. Rieman", with a long horizontal flourish extending to the right.

Garth B. Rieman
Director of Housing Advocacy and Strategic Initiatives