

**New England Housing Network  
Federal Budget and Legislative Priorities  
May 2009**

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## **New England Housing Network Federal Budget Priorities for FY2010**

The President's FY2010 budget provides \$46.3 billion in discretionary funding for HUD, which is \$4.5 billion or 11 percent more than the FY2009 level. The New England Housing Network strongly supports this significant increase. The budget provides \$1 billion for the National Housing Trust Fund, and enough funding to renew all tenant-based and project-based Section 8 units. The budget also provides important increases for CDBG, Housing Counseling, Public Housing Operating Fund, and Homeless Assistance Grants.

### **National Housing Trust Fund: New Project-Based Vouchers Needed**

The New England Housing Network strongly supports at least \$1 billion, as proposed in the President's budget, to fund the National Housing Trust Fund.

This Trust Fund offers a critical tool in efforts to meet the housing needs of extremely low income households, but will be very difficult to use unless it is coupled with project-based rental assistance. The Fund must be used to help create deeply affordable units. At least 90% of the funds must be used for the "production, preservation and rehabilitation" and "operating costs" of rental housing and at least 75% of that must benefit extremely low income (ELI) households (incomes at or below 30% of area median), with the rest limited to very low income households.

The challenge is that while the Trust is generally envisioned as a *capital* grant program, capital grants can only help reduce or eliminate debt service costs. They cannot close the gap between operating costs and the rents most ELI households can afford. This gap can be significant. In Massachusetts, for example, operating costs for debt-free projects average about \$750/month (9,000 a year), a rent level affordable only to households earning at least \$30,000 a year.

Supplementing the National Housing Trust appropriation with a set-aside of project-based rental assistance vouchers offers a much more straightforward solution to this problem. The cost per voucher would be relatively low because the voucher would be attached to units with little or no debt service.

### **Housing Choice Voucher Program (Section 8)**

Established thirty-five years ago, the Section 8 Housing Choice Voucher program is the nation's largest and one of its most successful low-income housing assistance programs. Nationally, it helps over two million households to rent and, increasingly, own modest housing in the private market. Approximately 150,000 New England households currently receive tenant-based assistance. The vast majority are senior citizens, people with disabilities, and working families with children. Throughout the program's history it has enjoyed broad, bi-partisan support.

The President requests a total of \$17.84 billion for all tenant-based rental assistance programs in FY 2010, a net increase of \$1.02 billion over the FY 09 appropriation, if you disregard the \$750

million offset from current year funding due to a rescission of prior years' unspent funds. Of this amount, \$16.19 billion is for voucher renewals, which the Center on Budget and Policy Priorities (CBPP) estimates should be sufficient to fund all vouchers in use at the end of 2008, plus new incremental and tenant protection vouchers added in 2009. We note, however, that the actual voucher funding level could end up being \$178 million less than proposed as a result of a one-percent across the board set-aside to help fund HUD's new "Transformation Initiative."

The New England Housing Network supports HUD's \$16.19 billion proposal to fully fund voucher renewals and urges Congress to adopt this request.

Administrative fees are funded with \$1.49 billion out of the President's \$17.84 billion request. Although this represents a \$44 million increase over FY 09, the proposed funding level is unlikely to be sufficient since agencies only received 90 percent of the funding for which they were eligible this year under HUD's formula for awarding administrative fees, which is based on the number of vouchers each agency leases up. The Network supports continuation of this "leasing-based" formula, but urges Congress to provide full funding. The President's budget also allocates \$50 million for the Family Self-Sufficiency Program, which the Network supports.

From 2004 to 2006, HUD calculated an individual housing agency's voucher renewal funding needs using a "budget-based" funding formula, which was based on outdated and increasingly unreliable housing cost data. This misguided formula, taken together with several other factors, resulted in the loss of an estimated 150,000 vouchers nationwide, as well as general funding instability for the program.

Thankfully, each year since then Congress has rejected HUD's ill-conceived, block-grant style formula and allocated funds based on actual past voucher usage and costs, which allowed for the restoration of about two-thirds of the vouchers lost nationwide. The Network appreciates HUD's adoption of this overall approach for President Obama's first budget, with three modifications, all of which the Network supports:

- Renewal funding would be based on the more recent calendar year 2009 leasing and housing cost data, instead of information from the fiscal year ending September 2009;
- HUD proposes lifting the prohibition against "over-leasing," giving agencies the flexibility to assist more households than their authorized levels; and
- A new renewal funding offset and reallocation mechanism would allow HUD to capture and reallocate agency reserve balances that exceed the two-week level (3.85 percent of annual funding) to other agencies to meet their renewal needs, or fund additional households.

It is critical that the FY 2010 budget continue to use a "recent-cost" funding formula and we look forward to its permanent adoption through the Section Eight Voucher Reform Act (SEVRA).

The Network's major concern about the proposed Section 8 budget is its lack of funding for new incremental vouchers, especially considering that HUD is not funding new vouchers for veterans, family unification and non-elderly with disabilities, as it did this year. The HUD budget does

assert that 116,000 additional households would be assisted under the budget in 2010, yet this seems to rely at least in part on the potential availability of significant reserves of unspent funds from prior years. While the goal of assisting an additional 100,000 families next year is promising, we are concerned that this goal cannot be achieved through the use of reserve funds. For a variety of reasons, many housing authorities will be compelled this year to spend down substantial amounts of reserves just to maintain assistance for the same number of voucher holders. HUD itself has acknowledged that 2009 renewal funding is insufficient and, as noted above, is reduced in 2009 through a \$750,000 offset. Reserve balances at the end of 2009 are therefore likely to be at much lower levels and insufficient to fund additional households.

Moreover, with strong evidence that poverty and homelessness are rising, it is imperative that Congress set a more aggressive goal of funding 200,000 new vouchers in 2010 and realign budget priorities to meet this goal. This spike in homelessness is worsening what was already a large and persistent problem, even before the current recession. Rental assistance is key to reducing homelessness among both families with children and individuals because they are flexible and cost-effective, making housing affordable even for those with extremely low incomes. Like other low-income programs that help poor people pay for basic needs, housing vouchers also serve as an effective economic stimulus because they free up income that can be spent on other essential living expenses.

The New England Network joins a broad array of national housing organizations in urging Congress to appropriate an additional \$1.6 billion for 200,000 new vouchers.

Tenant protection vouchers are funded at \$103 million in the President's budget, a substantial reduction from the \$150 million appropriated in FY 09. These vouchers help tenants avoid displacement when their subsidized housing is converted to market rate, or help them relocate when their subsidized homes are demolished. It is unclear why HUD is requesting a lower amount. The budget also continues past policy of providing these vouchers only for units occupied during the last two years. Historically, they were funded for all units leaving the affordable housing inventory. The Network urges Congress to level fund tenant protection vouchers and to require that HUD replace all housing leaving the affordable housing inventory, not just those units occupied over the previous two years.

Project-based rental assistance contract renewals are funded at \$8.1 billion in the President's budget, including \$7.9 billion for contract renewals and a \$400 million advance appropriation for FY 2011. This represents a \$1 billion increase over FY 09 funding and is estimated by CBPP, albeit roughly because of the lack of reliable HUD data, to be sufficient to fund all project based contracts for the full twelve months of FY 2010. The Network supports the President's project-based budget and strongly urges Congress to dedicate a substantial percentage of the 200,000 requested new vouchers as project based for use in conjunction with the National Housing Trust Fund. We note, however, that annual cost adjustments have been negligible for over ten years and lag far behind rising operating costs, especially those related to energy.

## **CDBG and HOME**

The Community Development Block Grant (CDBG) and HOME programs are valuable resources for cities and states struggling to ensure opportunities for residents to live in safe and affordable housing. These programs have funded projects that improve the quality of life across New England, including rental housing, homeownership, infrastructure improvement, and economic development.

The President's FY2010 budget proposes to fully fund the CDBG program at \$4.45 billion, which we fully support. We are also supportive of the three new initiatives proposed in the President's budget including the Sustainable Communities Initiative, the Rural Innovation Fund and University Community Fund. We are happy to work with HUD staff on program design and implementation.

While we agree that reform is needed in the program, the Network remains concerned about any changes to the allocation formula that would negatively impact Northeast cities that have the nation's oldest housing stock. We request Congressional support to maintain level funding of CDBG for ongoing programs and ensure that the CDBG formula is not revised at the expense of New England cities and states.

The Network continues to support restoration of funding for a flexible and effective HOME program. The program has a proven track record of success, having financed more than 1 million homes. Adjusting for inflation, the HOME program would require \$2.4 billion just to remain level-funded. The President's budget would provide funding of \$1.8 billion for this critical program which is a step in the right direction, but more resources are needed.

The Network continues to support raising the state minimum for the HOME program from \$3 million to \$5 million. We also support increasing the percentage of total HOME funds that can be use for the payment of CHDO operating expenses from 5% to 10%.

## **Homelessness Assistance**

Many communities have recently reduced the number of people experiencing chronic homelessness by using successful and cost-efficient interventions. However, almost 3.5 million people will experience homelessness this year, about 18% of whom are chronically homeless and have been living on the street with mental illness and other disabling conditions for long periods of time. Federal investments in proven strategies will allow communities to continue making progress toward their goals of ending chronic homelessness. Below is a set of priorities which the New England Housing Network urges Congress to act on in 2009.

*Provide \$2.2 billion in FY2010 for HUD's McKinney-Vento Homeless Assistance Grants:*

A funding level of \$2.2 billion will allow communities to apply an appropriate mix of interventions to end homelessness, including homelessness prevention activities, transitional housing, permanent housing, and supportive services, and fund 15,000 new units of permanent supportive housing. In 2001, the Administration set a goal of ending chronic homelessness in 10

years. It was estimated that 150,000 units of permanent supportive housing—affordable housing linked to supportive services—were needed to achieve that goal. Since 2001, approximately 60,000 of those units have been funded. Congress should fund 15,000 additional units of permanent supportive housing in FY2010 and in each year until the goal of 150,000 units is reached.

*Increase funding to \$120 million in FY2010 for SAMHSA homeless programs for services linked to housing:* The Grants for the Benefit of Homeless Individuals (GBHI) and Treatment Systems for Homeless programs administered by SAMHSA provide essential mental health and substance abuse treatment services needed to help homeless people maintain their housing and make progress toward recovery and self-sufficiency. Current investments by SAMHSA in targeted homeless programs are highly effective and cost-efficient. Increased funding is necessary to overcome a federal preference for funding housing capital needs over critically important services, and to overcome barriers to mainstream programs, such as Medicaid, welfare, Medicare, and general substance abuse and mental health services funds.

## **Public Housing**

New England has approximately 75,000 public housing units which need ongoing funding for operations, repairs, modernization, and resident services. The region's public housing stock is generally older than in other parts of the country, placing it at greater risk of deterioration without reinvestment. This resource is extremely important because it provides permanent housing for some of the region's lowest income families, elders, and people with disabilities who could not otherwise afford to rent apartments in the private market.

*Operating Subsidies:* The President's proposed FY10 budget includes \$4.6 billion for the public housing operating fund. Considering estimates from the Center on Budget and Public Policy that \$5.3 billion is needed to fully fund the system, we are concerned that the President's proposed operating subsidy amount would only provide about 87 cents for each dollar of operating costs that will be necessary for the 2010 fiscal year. Therefore, the New England Housing Network supports full funding of the nation's public housing system's operating fund at \$5.3 billion for FY2010.

*Capital Grants:* The President's proposed FY10 budget includes \$2.24 billion for the nation's public housing capital fund. This is a reduction of \$210 million from FY2009 capital funding for public housing. We understand that the Administration believes this reduction in capital funding is justified for FY10 because it comes on the heels of \$4 billion in public housing capital improvement money that was included in the spring 2009 stimulus package. However, it is important to understand that the stimulus funding for public housing capital improvements is being used to address critical system needs that were postponed because of yearly budget cuts to the public housing capital fund by the previous Administration. The New England Housing Network supports funding for the nation's public housing capital fund for FY10 at last year's level of \$2.45 billion.

*Choice Neighborhoods Initiative:* The President's FY10 budget proposes to eliminate the HOPE VI program, instead initiating a more comprehensive Choice Neighborhoods Initiative with \$250 million. The New England Housing Network supports increasing start up funding for the Choice Neighborhoods Initiative to \$500 million.

Our experiences with HOPE VI in New England have been mixed. The program has been used successfully in Massachusetts to transform deteriorating public housing communities into successful affordable housing developments. However, in many other states, the program has resulted in the demolition of many more units of low income housing than it has replaced. With the high cost of rents in New England, every affordable housing unit is of critical importance; preservation is essential to the health of our communities. Therefore, in advance of established program guidelines for Choice Neighborhoods Initiative, the New England Housing Network encourages the inclusion of the following important principles into the program's design:

- Preservation of all units of public housing affected by neighborhood transformation efforts funded with program monies;
- Comparable resident eligibility and long-term affordability for all replacement units affected by neighborhood transformation efforts funded with program monies;
- Elimination of rescreening and readmission processes for all residents affected by neighborhood transformation efforts funded with program monies; and
- Strong resident participation requirements in all phases of neighborhood transformation efforts funded with program monies.
- Takes into account the needs of smaller and rural communities.

## **Rural Housing**

The Administration's FY2010 budget largely funds USDA Rural Development programs at the same level as FY2009, not counting the additional Section 502 homeownership funding through the American Recovery and Reinvestment Act. While the budget is an immense relief compared to repeated attempts by the Bush Administration to eliminate the majority of RD's programs, the New England Housing Network is disappointed that the Obama Administration has not made a stronger commitment to rural housing. With the exception of rural rental assistance, the rural housing and community development programs do not receive increases over last year. Because interest rates are falling, the subsidy necessary for rural housing homeownership is reduced. We urge Congress to use these savings to expand rural housing programs.

More specifically, USDA programs that have been utilized extensively in rural New England include the following:

The *USDA Family Housing Program (Section 515)* is frequently the only option for providing affordable apartments in rural areas. Funds are generally used to create new housing units, and the program, therefore, acts as an important economic stimulus as well as a generator of affordable rental housing. The program is slated for level funding under the President's FY2010 budget. In 1994, the program was funded at \$540 million, but the FY2009 funding level is only \$69.5 million. The Network supports gradual restoration of funding levels for this program to the level of the early 1990's, beginning with an appropriation of \$250 million this year.

Rental assistance through the *Rural Rental Assistance Program (Section 521)* usually accompanies Section 515 loans and is critical for low-income affordability, building maintenance, and capital necessary for preserving existing projects as affordable rentals. The Network is pleased that the Administration's budget increases the level of rental assistance, including a small amount of money for new construction projects. We also urge restoration of multi-year contracts, as opposed to the one-year contracts in 2010.

Homeownership is the norm in most rural communities where rental units are scarce and production of new apartments is difficult due to lack of economy of scale. The *Single Family Direct Loan Program (Section 502)* is a proven vehicle for efficiently housing rural families with low incomes. With limited employment opportunities, homeownership provides the primary mechanism for wealth generation in rural areas. The Network is pleased with the support shown to this program through the American Recovery and Reinvestment Act, but is disappointed that the FY2010 budget proposed the same funding level as FY2009, minus the ARRA funds. We recommend increasing the level of the 502 Direct Program to \$2 billion while reducing the 502 Guarantee Program to \$4.8 billion. The Guarantee Program is not nearly as effective in facilitating homeownership opportunities for lower income rural households.

Preservation of existing subsidized housing stock is an important issue in both rural and urban areas in New England. More 515 rental units are being lost through prepayment than are being created. Since 2001 alone, approximately 1,200 units in the USDA RD portfolio in New England have been lost through prepayment and/or conversion. The Network is pleased that the Administration is continuing the Rental Preservation Demonstration but is disappointed that the budget proposes to cut Rental Preservation Revolving Loans from \$2.9 to \$1.8 million. The Network recommends a total of \$50 million for the Multifamily Rental Preservation Demonstration, Section 542 preservation vouchers, and the Rental Preservation Revolving Loan Fund with at least \$6 million for the PRLF.

## **Housing Counseling**

Housing counseling is a critical tool in assisting low and moderate income households to become successful homeowners. Under HUD's Housing Counseling Program, local non-profit organizations provide a variety of services to low income homebuyers, including budget and credit counseling, educational workshops, foreclosure prevention, and post-purchase counseling. In addition, national and regional intermediaries assist in administering and monitoring the program on a broad level.

The Network supports the President's proposed request of \$100 million for the Housing Counseling Program, which represents a \$35 million increase from FY2009.

### **Lead Paint Hazard Reduction and Healthy Homes Programs**

The appropriation for lead paint hazard reduction decreased since FY2004 and has not increased substantially for fifteen years. In FY2004 the appropriation was \$174 million. The proposed level for FY2010 is \$140 million (\$116 million for Lead Hazard control; \$20 million for the Healthy Homes Initiative and \$4 million for Technical Studies). While an increase from last year's appropriation of \$116 million, it is still not adequate to address the problem. New England, with its aging housing stock, is particularly in need of these resources. On average, 58% of the region's housing stock was built before 1970 as compared to 46% nationally.

The Network supports a return to the FY2004 funding level of \$174 million. In FY2008, Congress targeted \$48 million for competitive grants of at least \$2 million for the cities with the worst lead poisoning problems. The Network supports maintenance of these targeted grants.

### **LIHEAP (Low Income Home Energy Assistance Program)**

LIHEAP is a vital safety net for millions of vulnerable low-income households—the elderly and disabled living on fixed incomes, the working poor, and families with young children. This is especially true in New England with a long heating season and a reliance on high cost home heating oil and propane. In 2007, well before the current recession took hold, 8.7 million residential customers nationally had their electricity or natural gas services terminated for failing to pay their bills. At the end of the 2007-2008 winter heating season, the number of electricity and natural gas residential households with past due accounts had jumped to almost 40 million customers, representing nearly \$8.7 billion in past due accounts. Data for the 2008-2009 heating season is not yet available, but some LIHEAP information from the Vermont Agency of Human Services confirms common sense expectations: Vermont saw a 24.7% increase in LIHEAP applications over the previous winter.

As the current economic crisis exerts additional pressures on low income households, energy assistance will become increasingly vital. The strain families are experiencing is mirrored at the state level where each LIHEAP dollar buys less fuel and burgeoning applications reduce the average level of assistance. LIHEAP was funded at \$5.1 billion in FY2009. These funds were stretched by state dollars which are now under severe pressure.

The President's FY2010 budget appropriates \$3.2 billion for LIHEAP, nearly \$2 billion less than FY 2009. We urge the New England Congressional delegation to support funding at a level no less than \$5.1 billion—the FY2009 amount. The President also proposes a new trigger mechanism which would provide automatic increases in energy assistance whenever there is a spike in energy costs. Since the normal appropriations process is not always timely, we ask that you support this long-needed program correction.

## **Manufactured Housing**

Manufactured housing is the largest source of unsubsidized affordable housing in the nation. Much of this housing is located in manufactured housing parks, with an increasing number found in parks that are resident-owned and managed. For example, in New Hampshire, Resident Owned Communities constitute 20% of all the parks in the state. It is important for Congress and federal agencies to be sensitive to the unique features of such housing to avoid the exclusion of such communities from policies and programs.

In particular, the HOME program, multifamily mortgage insurance programs, and the Capital Magnet Fund need to permit and encourage full access by manufactured housing generally and Resident Owned Communities in particular (including parks in the process of being converted to resident ownership). Allocating authorities should not be permitted to impose additional regulations on the use of HOME and CDBG funds that result in excluding this housing from eligibility under these programs. Program rules should also clearly recognize that assistance to resident-owned communities does not constitute assistance to individual families.

## **New England Housing Network Federal Legislative Priorities for 2009**

### **Foreclosure Mitigation and Anti-Predatory Mortgage Lending Legislation**

The rising rate of mortgage delinquencies and foreclosures and their spillover into national credit markets has led to multiple efforts to assist troubled borrowers and displaced tenants, to help states and localities with large numbers of foreclosed properties, and to reform Government Sponsored Enterprises, the Federal Housing Administration (FHA), and private lending practices.

The New England Network is pleased that the Obama Administration has moved to aggressively address the problem through the Making Home Affordable Program and the Public Private Partnership Investment Program.

The Network supports the following legislation:

1. *Anti-Predatory Lending and Foreclosure Prevention Legislation:* The current foreclosure crisis has made the need for mortgage reform legislation abundantly clear. We support legislation to outlaw predatory lending practices, to improve disclosures to borrowers, and to require mortgage originators and servicers to act affirmatively to prevent foreclosures.

**H.R. 1728**, passed by the House of Representatives, provides a good starting point by banning loans which borrowers are not reasonably likely to be able to repay and limiting steering to higher price loans. We urge the Senate to pass companion legislation. We also want to ensure that the new legislation does not pre-empt state laws that may have stronger provisions in these areas.

**S. 896/H.R. 1106 - Helping Families Save Their Homes Act of 2009** supports foreclosure prevention efforts by revising HUD, VA and other insurance programs to encourage loan modifications. They also extend the FDIC insurance limit of \$250,000 beyond 2009 and protect servicers who modify mortgages from investor lawsuits. S. 896 also includes protections for renters living in foreclosed properties, requiring successors in interest to give bona fide tenants at least 90 days notice before ordering them to vacate and allowing them to remain for the term of their lease (unless the property is then sold to a person who will occupy the property). It does not pre-empt any stronger protections under state or local laws or rental subsidy programs. While H.R. 1106 does not include renter protection language, the House approved similar language in H.R. 1728.

S. 896 also includes language modifying the Neighborhood Stabilization Program (NSP) to allow States that received formula grants to use up their allocation to meet statewide concerns (rather than limiting them to targeted areas) and to use up to 10% of their allocation for

foreclosure prevention and mitigation as defined by HUD. It also authorizes \$75 million in new spending to help consumers avoid mortgage rescue scams. H.R. 1106 allows bankruptcy judges to modify mortgages while S. 896 does not. These differences will have to be resolved in conference. We support both bills.

2. *Neighborhood Stabilization Program:* The Network is pleased that Congress has appropriated approximately \$6 billion to acquire and renovate foreclosed properties. To more effectively utilize these funds, however, the Network supports the package of regulatory and legislative changes put forth by the National Foreclosure Prevention and Neighborhood Stabilization Task Force. Two legislative changes include:

a. *Vacant Properties and the 25% Very Low-Income Set-aside:* Although NSP funds may be used for the purchase and redevelopment of vacant properties, HUD interprets the statute as saying that renting or selling these homes to very low-income households does not count toward the requirement that 25% of funds be spent on families with incomes below 50% of Area Median Income. HUD's strict reading of the statute is that only abandoned or foreclosed homes count toward satisfying the 25% requirement. At the same time, the most feasible way to achieve the 25% requirement in some communities is through the new construction or redevelopment of multifamily properties on vacant sites, not all of which have gone through foreclosure proceedings.

Solution: Allow all eligible activities to qualify for the 25% set-aside for families with incomes below 50% of Area Median Income.

b. *Eligible Uses:* HUD has determined that Eligible Uses A (financing mechanisms) and C (land banks) are only applicable to foreclosed properties, not all properties that are otherwise eligible for NSP funds. This narrow application of the original statute compromises the effectiveness of the program.

Solution: The statute should be revised to clarify that financing mechanisms and land banks are to be used in support of the other activities eligible under NSP.

3. *Protection of Tenants in Foreclosed Properties:* When a multi-unit property is foreclosed, lenders generally require tenants to leave. The current foreclosure crisis has led to significant displacement of low income renters, especially in New England, where 2-4 family properties are more common (the National Low Income Housing Coalition estimates renters make up about 40% of all households displaced by foreclosures, but 50% or more in Massachusetts, Connecticut and Rhode Island.) H.R.1728 and S. 896 protect bona fide tenants in foreclosed properties from displacement by requiring that they be given a minimum notice period (90 days) before being required to vacate and by allowing those with leases to remain until the end of their lease. Tenants with a Section 8 voucher would be able to remain in the property with their lease and rental assistance payments intact.

## Section 8 Voucher Reforms

The Section 8 Voucher Reform Act (SEVRA) proposes major legislative changes to the voucher program – the first since 1998 when Congress enacted "QHWRA," the Quality Housing and Work Responsibility Act. Many organizations in the Network have been working with this program since before QHWRA, and have seen the program grow and evolve into a successful and critically important resource for the nearly 150,000 New England low-income households receiving tenant-based assistance, including families, elders, and people with disabilities. SEVRA would build on that record of success by improving and streamlining program rules while retaining core program characteristics.

In the 110<sup>th</sup> Congress, SEVRA (H.R. 1851) passed the House of Representatives by a strong, bipartisan vote of 333-83. Companion legislation, S. 2684, was introduced in the Senate but remained in the Banking Committee.

The New England Housing Network strongly supports SEVRA and urges Congress and President Obama to approve it this year. Some of SEVRA's most important provisions include:

*Funding Formula:* Provides for a stable funding formula, which will encourage agencies to serve the maximum number of families with available funds because it bases funding on cost data for the most recent calendar year. This would ensure that every agency would have the security of knowing it had enough funding to renew all its vouchers each year.

*Authorization of Incremental Vouchers:* Authorization for 150,000 incremental vouchers (both tenant-based and project-based) in each of the next five years. New vouchers would provide desperately needed housing for the thousands of households currently on Section 8 waiting lists nationwide.

*Administrative Fees:* Ties each agency's administrative fee payments to its voucher utilization, thereby creating an incentive for agencies to lease the maximum number of vouchers that can be funded within the agency's budget.

*Tenant Protection Vouchers:* Directs HUD to issue tenant protection vouchers to replace all lost federal housing subsidies, whether or not they are occupied at the time the subsidy was eliminated.

*Rent Burdens:* Requires annual reports on rent burdens and encourages public housing authorities (PHAs) to increase payment standards to reduce undue rent burdens and prevent excessive voucher utilization in higher poverty neighborhoods, by requiring HUD to approve payment standards up to 120% of FMR when rent burdens exceed reasonable limits.

*Tenant Rent Payments:* Streamlines the rules that determine the amount voucher holders and public and assisted housing tenants are required to contribute toward their rent each month, while maintaining income-based rents and the key principle that tenants should not pay more than 30 percent of income for rent.

*Income Targeting:* Revises the targeting requirement to the higher of (a) 30 percent of the local area median income or (b) the federal poverty line. This change would give agencies in the lowest-income areas added flexibility to serve low-wage working families.

*Housing Quality Inspections:* Requires inspections every two years rather than annually; allows PHAs to rely on comparable inspections performed for other housing assistance programs; and permits a household to move into a unit that fails initial inspection for a non-life-threatening reason with the first month paid.

*Portability:* Requires the agency in the jurisdiction where the voucher holder wants to move to absorb the voucher and provides them with the funding to do so.

*Project-Based Voucher program:* Provides some much needed changes to allow greater use of this production tool, including provisions to clarify allowable rents in Low Income Housing Tax Credit (LIHTC) units and permit a guaranteed rent floor despite a reduction in fair market rent. Also allows project-basing of 25% (rather than 20%) of funds, plus 5% for households who are homeless, disabled or located in areas where vouchers are difficult to use.

*Deconcentration of Poverty:* Establishes deconcentration as a performance goal.

*Earned Income Disregard:* Promotes work by disregarding a percentage of the earned income of all employed individuals.

## **Preservation of Existing Affordable Housing**

The preservation of the existing affordable housing stock continues to be of utmost concern to the Network. Hundreds of thousands of American households live in rental units that were developed with mortgages and/or project based rental assistance contracts from either HUD or USDA Rural Development (RD).

Many of those units were developed in the late 1970's or early 1980's, and their mortgages are beginning to mature or are subject to prepayment. In addition, Section 8 contracts continue to expire and are renewable at the owner's discretion. A recent GAO report noted that there are 23,000 HUD subsidized properties nationwide, of which 11,267 have HUD-assisted mortgages. Twenty-one percent of those properties, comprising 101,000 units, will mature in less than ten years. HUD-subsidized properties with state Housing Finance Agency mortgages are in a similar situation. The recent dislocation in the homeownership market and the economic downturn have made the continued need for affordable rental housing even more urgent.

Rural rental housing is equally at risk and serves very low-income tenants in markets where other rental options are extremely limited. In a study conducted of HUD's Section 515 sponsored properties in 2003-2004, HUD found that annual tenant household income was less than \$10,000. As of 2004, nearly 10,000 RD 515 properties were eligible for prepayment. In the New England states of Maine, New Hampshire, and Vermont, there are over 12,000 units of 515 housing. In Maine alone, 1,849 units in 79 properties are due to expire over the next five years.

With regard to new legislation, the Network continues to endorse the comprehensive proposal made by the National Preservation Working Group (NPWG), an association of national, regional and local stakeholders committed to the vitality of our affordable housing stock. Although the Network and NPWG recognize that some of these proposals have been enacted through HERA and although some additional needs have been created by policy changes made towards the end of 2008, the overall thrust of this legislation remains urgent. The principal provisions of those recommendations addressed the need to: Maintain Housing at Risk of Being Converted to Market; Restore Housing at Risk of Loss Through Deterioration; and Protect and Empower Residents Facing Conversion. In addition, the enactment of exit tax relief remains as an important measure to facilitate transfer of properties in weak markets.

We are pleased that Chairman Frank is now drafting an updated and comprehensive preservation bill that addresses virtually all of our recommendations. The Network generally endorses this bill and looks forward to quick House action as well as similar action that we understand is pending on the Senate side.

The Network continues to support the preservation provisions in H.R. 2930 & S. 2736 of the 110<sup>th</sup> Congress, reforming the Section 202 program. These measures, which we understand may be incorporated into the comprehensive preservation legislation, will provide important new recapitalization and preservation tools, including authorization of a new Senior Preservation rental assistance contract made available to nonprofit owners as project-based rental assistance for units not already covered, and expansion of authority to provide enhanced vouchers. These bills also broaden the eligible uses of refinancing proceeds and refinancing methods, clarify rent increase protection for unassisted tenants and authorize subordination, sale and restructuring of existing debt. Some of these measures were included on a temporary basis in the FY 2009 appropriations act, but their permanent extension is needed.

The Network also continues to support the Mark-To-Market Extension and Enhancement Act of 2007 (H.R. 3965 in the 110<sup>th</sup> Congress), which will provide important authority to extend the M2M program to October 1, 2012; extend the period of eligibility for nonprofit debt relief from three to five years; extend HUD's authority to approve rents in excess of 120% of FMR; and make a broader range of properties eligible for M2M, subject to owner consent. We believe these measures should be included in the comprehensive preservation bill.

## **Low Income Housing Tax Credits**

The Low Income Housing Tax Credit (LIHTC) program has been the single most important resource for creating affordable rental housing since its creation in 1986. In the last 23 years, the LIHTC program has produced more than two million apartments with rents affordable to low income families, seniors, homeless individuals, and those with special needs by providing investors with federal tax credits in exchange for equity. This federal program is administered by the states which allocate tax credits according to their own policies and procedures.

The economic crisis which has devastated the financial markets has also devastated the LIHTC program. The Housing and Economic Recovery Act (HERA), which was signed into law in July 2008, provided a temporary 10% boost in the amount of Housing Credits which can be allocated by each state and other permanent program amendments to make the Housing Credit program more effective and efficient.

Starting last summer, the breakdown in the larger financial markets has precipitously slashed equity investment in the Housing Credit program. Investment in the LIHTC has fallen from about \$9 billion in 2007 to about \$4 to \$5 billion in 2008, and could well drop even further in 2009. Fannie Mae and Freddie Mac, which had been purchasing about 40% of the Housing Credits, abandoned the LIHTC syndication market. Many other major LIHTC investors found they had no taxable income to offset, reducing the value of the credits already in their portfolio and taking them out of the market for new credits. This deep decline in demand for Housing Credits also sharply reduced the price that investors will pay for Housing Credits. Lower LIHTC prices mean less equity investment, which requires greater use of debt or soft money.

The American Reinvestment and Recovery Act (ARRA) provided two valuable programs which directly address the need to bridge the equity gap caused by lower credit prices. The Exchange Program, operated by the Treasury Department, allows state Housing Credit allocating agencies to return unpurchased credits from projects which received an award of Housing Credits in 2008 and 2009 at a rate of 85 cents per credit dollar (multiplied by ten to reflect the 10-year credit period). HUD's Tax Credit Assistance Program (TCAP) provides \$2.25 billion to states to fill funding gaps in projects which received Housing Credits in 2007, 2008 or 2009.

The current LIHTC investment environment is a short-term condition. However, with market improvement not expected for several years, and with many low and moderate income seniors and families facing their own economic distress in the meantime, the Housing Credit program needs further changes to stimulate investment in the Housing Credit and to bridge the financing gaps caused by reduced Housing Credit prices.

The following solutions are under discussion and deserve your support:

- (1) Permit taxpayers to carryback for up to five years unused Low-Income Housing Tax Credits from the returns they file in 2009, 2010 and 2011, but only to the extent they make new LIHTC investments. This proposal will immediately increase investments in low-income housing.

(2) Permit taxpayers to carryback credits generated by new LIHTC investments up to five years as they arise during the ten year credit period. This proposal will increase the attractiveness of the LIHTC program for investors concerned about their continuing ability to utilize the tax credits over a ten year horizon.

(3) Extend the Exchange Program into FY2010 and expand it to include the 4% Low Income Housing Tax Credit. This will help bridge the equity gap resulting from depressed credit prices in all LIHTC projects.

### **Housing for the Elderly**

HUD's Section 202 program was created through the Housing Act of 1959. It is in need of some important reforms that will improve the efficiency of the program, facilitate refinancing that is often necessary for capital improvements, preserve existing facilities, use the assisted living conversion program more effectively to renovate projects, and more easily marry the 202 program with other funding sources to create more apartments. These important changes are reflected in H.R. 2930, which passed the House of Representatives in December 2007. A lack of time stopped the bill in the Senate. The New England Housing Network strongly supports passage of what is now S. 118.

There is one important difference between the House and Senate bills. The Senate bill added Section 201(4), which makes refinancing possible for older 202 developments (those built before 1974). As the law currently stands, a 202 development cannot be refinanced if the new interest rate would be higher than the original rate. The older developments tend to have low interest rates, and, therefore, cannot raise the capital needed for improvements through refinancing. The Network asks that our congressional delegation works to make sure that this provision stays in the bill, both as it makes its way through the Senate and in Conference.

### **Homelessness**

#### *1. Pursue the Frank Melville Supportive Housing Investment Act of 2009 (H.R. 1675)*

The HUD Section 811 program is the only federal housing program solely dedicated to assisting the lowest income people with serious and long-term disabilities to live independently in the community by providing integrated affordable rental housing linked with voluntary services and supports.

The Frank Melville Supportive Housing Investment Act of 2009 (H.R. 1675) is essential legislation that will help address the enormous and unrelenting housing crisis faced by millions of extremely low income people with disabilities and will spur the creation of thousands of new 811 units every year by:

- a) Authorizing a new Section 811 Demonstration Program that fulfills the promise of true community integration as envisioned in the Americans with Disabilities Act;
- b) Enacting long over-due reforms and improvements to the existing Section 811 production program essential for the program's long-term viability;
- c) Authorizing appropriations for assistance under section 8 (rental voucher program) of the United States Housing Act of 1937 for persons with disabilities in FY2010; and
- d) Modifying project rental assistance contract requirements, including renewal of, and increases in, annual contract amounts.

Enactment of H.R. 1675 will provide states and localities with a new infusion of critically needed Section 811 capital and project-based rent subsidy funding designed to invigorate and sustain the systematic creation of thousands of new permanent supportive housing units every year through partnerships with state housing finance agencies, county and local governments, and non-profit housing providers.

*2. Enact the HEARTH Act (S. 808 / H.R. 1877) to reauthorize HUD's McKinney-Vento Homeless Assistance Grants Program*

The HEARTH Act recently passed the full Senate as part of S. 896 and companion legislation is pending in the House. The legislation makes critical and substantial improvements to the McKinney program, which has not been reauthorized since 1992. The bill increases the priority for permanent housing, expands homelessness prevention resources, encourages the development of permanent supportive housing for chronically homeless individuals and families, and increases the competitiveness of rural communities.

**State Housing Finance Agency Liquidity and Access to Capital**

State housing finance agencies (HFAs) play crucial roles by making below-market loans to lower income first-time homebuyers and to developers of affordable multi-family housing. They are primed to produce hundreds of thousands of affordable, sustainable homes for working families while generating tens of thousands of new jobs and millions in tax revenue if they could simply put to work the billions of dollars of available federal housing assistance, including \$11 billion in new tax-exempt housing.

Unfortunately, HFAs currently are unable to sell long-term housing bonds at interest rates that allow them to lend bond proceeds affordably. As a result, many HFAs have severely curtailed—and several have suspended—their lending programs. This comes at a time when HFAs are experiencing increased mortgage demand from lower-income families seeking to take advantage of lower home prices, distressed homeowners seeking to refinance unaffordable mortgages, and developers trying to respond to the increased need for affordable apartments. As of March 2009,

45 state HFAs reported that they could issue a total of \$15 billion in housing bonds this year and another \$18 billion in 2010.

This requires a national housing bond purchase program. We urge you to require that Treasury purchase, or facilitate the purchase by Fannie Mae, Freddie Mac, or the Federal Home Loan Banks, of long-term fixed-rate housing bonds at reasonable rates that allow state HFAs to lend the proceeds at below market rates.

It is also critical that the Treasury provide liquidity by helping HFAs to remarket short-term Variable Rate Debt Obligations (VRDO). VRDOs are long term securities with short term interest rates that are reset periodically with a put or tender feature that allows holders to liquidate their positions at par on a periodic basis. This means that the bonds must be remarketed.

Unfortunately, many of the financial institutions that HFA's have relied on to provide liquidity essential for remarketing the VRDOs have either withdrawn from the market, been down-graded by credit rating agencies, or are charging excessive fees. Because of this instability in the liquidity provider market HFAs have been unable to find buyers for their many of their VRDOs. They have been forced to pay very high interest rates or convert them to "bank bond" status, requiring them to pay off under accelerated amortization schedules. These VRDO payments threaten the financial health of many HFAs, including HFAs in New England.

The remedy is for Treasury or the GSEs to provide HFAs with stand-by bond purchase liquidity facilities to replace existing facilities. Another powerful way Treasury could help address the HFA capital and liquidity needs is to facilitate the purchase of HFA loans by the GSEs. For many months the housing industry has been hearing that this would be addressed soon. It is critical that this be done now. If this can be not be accomplished expeditiously, the Network urges the delegation that this be legislatively mandated.