NCSHA

Testimony on the American Dream Downpayment Initiative
before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
by

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Chairman Ney, Representative Waters, and members of the Subcommittee, thank you for this opportunity to testify. I am Barbara Thompson, executive director of the National Council of State Housing Agencies (NCSHA).

NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. State HFAs issue tax-exempt private activity bonds (Housing Bonds), allocate the Low Income Housing Tax Credit (Housing Credit), and administer HOME Investment Partnerships (HOME) funds in nearly every state to finance affordable homeownership and rental housing for America's low-income families.

State HFAs are committed to making low-income families homeowners. Each year, HFAs help tens of thousands of low-income families buy their first homes through the creative combination of a variety of federal and state resources. NCSHA supports state HFA homeownership efforts by working in Washington for more affordable housing resources and the rational regulation of those state HFAs already have.

NCSHA is grateful to the Congress and the Administration for your support of affordable homeownership initiatives and resources. I believe we would all agree, however, that more could be done to expand homeownership among low-income families, including the commitment of additional federal resources.

For that reason, we commend the Administration's homeownership agenda, including the goals of the Administration's American Dream

Downpayment Initiative. However, we do not support the establishment of this program as a set-aside within HOME, as the Administration and H.R. 1276 propose.

State HFAs Are Committed to Homeownership

HFAs understand the value of homeownership for all families in America. They are devoted to making it a reality for those of limited means.

Central to state HFA homeownership efforts is the Mortgage Revenue Bond (MRB) program. State HFAs have issued nearly $170 billion in MRBs to finance more than 2.3 million below-market interest rate mortgages for lower-income first-time homebuyers. Each year, more than 100,000 families buy their first home with an MRB mortgage. In 2001, the average MRB homebuyer earned just 67 percent of the nation's median income.

In addition to using MRBs to reduce the monthly costs of homeownership, state HFAs use them to overcome the down payment hurdle that often presents another barrier to homeownership for low-income families. Many HFAs sell MRBs at a premium to obtain increased proceeds for providing down payment and closing cost assistance to homebuyers that need it.

State HFAs offer low-income families other assistance to help them achieve and sustain homeownership. They provide non-MRB down payment and closing cost help; soft second mortgages; lease-to-own options; acquisition, rehabilitation, home improvement, and construction financing; and homebuyer education and counseling.

HFAs use a multitude of resources to finance these activities. One of the most important is HOME. Other sources include Mortgage Credit Certificates, FHA insurance, Rural Housing Service assistance, Temporary Assistance for Needy Families (TANF) funding, Section 8 vouchers, state trust funds, taxable bonds, and state general funds.

More Federal Support Is Needed …

NCSHA and our member State HFAs are grateful for Congress's support of HOME, MRBs, and the other federal resources upon which state HFAs rely to make homeownership possible for low-income families. Congress has steadily, though modestly, increased HOME funding and recently increased by half the Bond cap that limits MRB issuance.

The most significant step Congress could take to expand low-income homeownership is to repeal the MRB Ten-Year Rule and update the MRB purchase price limits that deny tens of thousands of families their chance at homeownership annually. Eighty-two percent of the last Congress cosponsored legislation containing these changes. If you have not cosponsored identical legislation, H.R. 284, this year, we ask you to join Chairman Ney and the 175 other House members who have and help enact it in a tax bill soon.

The Ten-Year Rule alone costs states more than $3 billion annually in low-cost MRB mortgage money that would otherwise be available to help working families buy their first home. The Ten-Year Rule forces states to use payments on MRB mortgages to retire MRBs outstanding more than ten years rather than fund new mortgages to low-income families. Ohio loses $450,000 daily in MRB mortgage money to the Ten-Year Rule; California forfeits more than $1 million every day.

NCSHA also seeks Congress's help in protecting MRBs from unintended harm from the Administration's growth and jobs plan's dividend exclusion proposal. Though NCSHA is not opposed to the Administration's plan, we are concerned that if enacted as proposed, it would drive up Bond interest rates, imposing increased home purchase costs on those low-income families least able to afford them.

NCSHA also appreciates the Administration's efforts to expand low-income and minority homeownership through its Blueprint Partnership. NCSHA supports the Administration's proposed single-family affordable housing tax credit and is working aggressively as part of a coalition of Washington housing organizations to achieve its enactment. We also support the Administration's proposed housing counseling funding increase and its transfer out of HOME, Housing Choice Voucher Homeownership program, and new FHA financing options.

… But Not through HOME Set-Asides

NCSHA does not support, however, the Administration's American Dream Downpayment program as a set-aside within the HOME program.

Congress designed HOME as a block grant to allow states and localities, not Washington, to determine how to use HOME funds to best meet their affordable housing needs. Setting aside HOME funding for a single, Washington-prescribed purpose, irrespective of state and local judgment of housing need, is contrary to the purpose and spirit of HOME.

States and localities already can and do use HOME funding to support homeownership when they determine it is the best use of their limited funds. In fact, they have used HOME funds for homebuyer activities in nearly 40 percent of all HOME-assisted units.

Congress does not need to create a down payment set-aside within HOME to help more low-income families become homeowners through HOME. It needs to increase HOME funding. This Subcommittee could help HOME most by substantially increasing its authorization level and working with your colleagues on the HUD Appropriations Subcommittee to achieve increased funding.

Though Congress has provided modest HOME funding increases over the years, HOME just achieved in FY 2003 its 1990 authorization level of $2 billion. And, inflation has taken its toll. Congress would have to provide $2.9 billion in HOME funds just to achieve the funding Congress believed necessary to achieve HOME's objectives when it created the program 13 years ago.

Some argue the proposed $200 million for the down payment set-aside is 'new' HOME money—funding that Congress would not otherwise allocate to HOME. We believe a dollar available for the down payment set-aside is a dollar Congress could invest in HOME without restriction.

Appropriators made our point in FY 2002 when they directed the $50 million they appropriated for the down payment set-aside to revert to unrestricted HOME funding in the event Congress did not authorize the set-aside. Though Congress ultimately rescinded that money to help finance a supplemental appropriation, appropriators originally intended it to supplement state and local HOME funding.

We are also concerned Congress would fund the set-aside this year or in future years within HOME's current or even a reduced HOME appropriation. (The Administration itself in its FY 2002 Budget proposed to reduce HOME funding by $200 million to finance the down payment set-aside.) Though last year this Subcommittee worked to avoid such an outcome in authorizing the set-aside as part of the Housing Affordability for America Act of 2002, H.R. 3995, the language you adopted would not have prevented appropriators from reducing state and local HOME funding or forgoing HOME funding increases to finance the set-aside.

Creating yet another HOME set-aside continues an already alarming trend. Currently, HOME has housing counseling, technical assistance, and management and information systems set-asides. Though the Administration recommends removing the counseling set-aside, it proposes adding a lead hazard reduction set-aside in addition to the down payment set-aside. If the Administration and Congress continue down this set-aside road, HOME as we know it would be replaced by a laundry list of Washington priorities, which would ultimately undermine the success and efficiency of the program, as well as its support.

HOME is not a bank. If the Administration believes a federal down payment program is necessary, it should propose it as a freestanding program and let Congress decide whether it deserves authorization and funding. It should not attempt to ride on the coattails of the very successful HOME program.

Set-Asides Are the Problem

NCSHA is not uniquely opposed to the down payment set-aside. We oppose any and all set-asides that limit the flexibility Congress intended to provide state-administered federal programs such as HOME. For this reason, we applaud the Administration's effort to move the counseling program outside of HOME.

The bipartisan, congressionally chartered Millennial Housing Commission summed up NCSHA's view well when in its report it cited HOME's flexibility as key to its success. After extensively evaluating federal housing programs, the Commission concluded, "housing programs must be flexible enough in implementation to enable local actors to tailor federal resources to local needs." It further found that HOME is "to a large degree, highly successful precisely because [it was] designed with flexibility in mind."

The National Governors Association (NGA) shares NCSHA's view that set-asides are counterproductive to meeting local needs. NGA's recently adopted 2003-2005 affordable housing policy encourages the federal government "to support flexibility and state discretion in housing programs." It explicitly opposes "legislatively mandated set-asides in programs such as HOME" because they "limit financial resources for state-determined priorities."

In addition to NGA, the Council of State Community Development Agencies, the National League of Cities, the National Association of Housing and Redevelopment Officials, the National Coalition for the Homeless, and the

American Association of Homes and Services for the Aging are on record opposing the down payment set-aside. With this testimony, NCSHA submits for the record a statement we and these groups sent Congress last year communicating our concerns.

Down Payment Assistance Allocations Must Be Fair

If you authorize the down payment assistance program, we urge you to direct HUD to base funding allocations on need and not also on a jurisdiction's prior commitment to homebuyer assistance. Why should jurisdictions that directed scarce housing dollars to meet other affordable housing needs they judged more urgent be penalized under this program? Are they not the very jurisdictions HUD would like to invest more—not less—in homeownership?

As a practical matter, how could HUD possibly evaluate a jurisdiction's total commitment to homebuyer assistance? HUD believes it could not. HUD has told NCSHA it has chosen to take only HOME and CDBG activities into account in judging prior state and local government homebuyer investment because it cannot measure a jurisdiction's total commitment with precision.

This unfair approach ignores jurisdictions' MRB, state funding, and other homebuyer investments. It also ignores this Committee's directive in its September 17, 2002 report accompanying H.R. 3995, which said:

> The Committee is concerned that, when establishing a downpayment assistance allocation formula pursuant to the American Dream Downpayment program, the HUD Secretary will base a participating jurisdiction's prior commitment to homebuyers solely on that jurisdiction's use of HOME Investment Partnerships program funds for homebuyer activities. HOME program funds committed to homebuyer activities may not accurately reflect a jurisdiction's total commitment to homebuyer activities, as there are other Federal, State, and local resources that jurisdictions use for such activities.
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> Further, the Committee believes that a formula based solely on a jurisdiction's use of HOME funds for homebuyer activities is contrary to Congress' intent that participating jurisdictions have discretion in how to use HOME funds to meet locally determined housing needs. To the extent a formula bases future down payment assistance allocations on future HOME spending on homebuyer activities, that formula may unduly interfere with the

> flexible nature of the HOME program, which has been its greatest strength. The Committee intends to reward jurisdictions that support homeownership.

A formula that takes into account prior homebuyer investment also creates an incentive for grantees to allocate more HOME and CDBG funds to homeownership and away from other priorities to obtain larger future down payment assistance.

We urge you to reject the down payment set-aside. We encourage you to work instead to enact other initiatives which would have a more significant impact on low-income homeownership without threatening the successful HOME program.

Attachment

Oppose Creating a HOME Set-Aside for Down Payment Assistance

The undersigned representatives of state and local governments, nonprofit community development organizations, and other affordable housing advocacy groups oppose the HOME down payment set-aside proposed in the American Dream Downpayment Act, H.R. 4446, and contained in the revised version of H.R. 3995, the Housing Affordability for America Act, the Housing and Community Opportunity Subcommittee will mark up on June 18.

The HOME Investment Partnerships Program is one of the most important tools states, local governments, and their nonprofit and private sector partners have to respond flexibly to their unique and diverse affordable housing needs. When Congress created HOME more than a decade ago, it rejected the Washington-knows-best housing solutions of the past. Congress designed HOME as a block grant, leaving it up to states and localities to determine how to most effectively employ HOME funds to respond to their most pressing needs.

Contrary to the spirit of HOME, H.R. 4446 authorizes Congress to set aside $200 million in HOME funds annually for allocation to state and local HOME administrators solely for down payment activities, without regard to their jurisdictions' identified affordable housing needs. H.R. 4446 directs the HUD Secretary to distribute these funds under a formula based in part on a jurisdictions' prior commitment to homebuyer assistance, thereby penalizing PJs that use fewer HOME dollars for homebuyer assistance and encouraging them to prioritize homebuyer assistance over other locally determined housing needs.

The Millennial Housing Commission (MHC) specifically cites HOME's flexibility as key to its success. After extensively evaluating federal housing programs, the MHC concluded that "housing programs must be flexible enough in implementation to enable local actors to tailor federal resources to local needs." It further found that HOME is "to a large degree, highly successful precisely because [it was] designed with flexibility in mind." This set-aside flies in the face of the MHC's conclusion.

The down payment set-aside is not only corruptive of HOME it is redundant to it. Down payment assistance is already a HOME-eligible activity. State and local HOME administrators invest substantial amounts of HOME formula grant funding in down payment and other homebuyer programs when they judge those activities to be the best use of their HOME funds. In fact, over the life of the program, units receiving homebuyer assistance have accounted for nearly 40 percent of all HOME-assisted units. Jurisdictions also have invested substantial amounts of other housing assistance, such as Mortgage Revenue Bonds (MRBs), TANF funds, and state housing trust funds, in homebuyer programs when they determine those to be the most effective sources of homebuyer support.

Some argue that the proposed $200 million set-aside is “new” HOME funding that will not reduce current HOME formula grant funding. Yet, nothing in the bill prevents Congress from setting aside up to $200 million for the down payment program within the current HOME appropriation or even a reduced HOME appropriation.

If Congress is able to increase HOME funding above its current $1.8 billion funding level, we urge it to allocate those funds to the HOME state and local formula grant, which has been severely under funded since HOME’s creation. Congress would need to fund HOME at $2.9 billion just to achieve HOME’s original authorization level, after taking account of inflation.

We applaud efforts to increase homeownership among America’s lower income families. We believe that the best way to accomplish it is to increase funding for programs like HOME and MRBs, which have been so effective at achieving it. We urge you to reject the HOME down payment set-aside.

American Association of Homes and Services for the Aging
Council of State Community Development Agencies
National Association of Housing and Redevelopment Officials
National Coalition for the Homeless
National Council of State Housing Agencies
National League of Cities

June 17, 2002