Testimony submitted by:
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Testimony submitted to:
Chairman Rep. Dennis J. Kucinich
Ranking Member Rep. Jim Jordan

Domestic Policy Subcommittee
Oversight and Government Reform Committee

Committee Room 450 of the Georgia State Capitol Building
206 Washington Street Southwest
Atlanta Georgia

Monday, November 2, 2009
11:30 a.m.

Honorable Committee Members,

Thank you for the opportunity to share experiences of the Atlanta non-profit affordable housing development sector during this real estate financial crisis. The Atlanta Housing Association of Neighborhood-based Developers (AHAND) is the association of 16 non-profit community development corporations (CDCs) and non-profit affordable housing developers working to revitalize neighborhoods in and around Atlanta. We also have 12 additional affiliate members supporting the work of these organizations. AHAND works to provide collaborative programs that strengthen and support the community development activities of our member organizations, including capacity-building, policy research and education, and our monthly membership meetings and annual Affordable Housing Conference. We are also a member of the National Alliance of Community Economic Development Associations (NACEDA), which works in Washington to support CDCs and their associations across the country.

In response to your invitation to testify, I have gathered information from a number of our member organizations, detailing their direct experiences during this financial crisis and the impact it has had upon their community revitalization work. It is my hope that this information provides insight for Committee members into the current availability of financing products from lending institutions for both affordable housing development and small businesses. It also calls attention to other detrimental 'ripple-effect' impacts of the foreclosure crisis currently hampering local recovery efforts. For clarity in this testimony, 'affordable' refers to homes that are sold to qualified households earning no more than 80% of the area median income (adjusted for a family of two is $45,900 in Fulton County, 2009), and homes that are rented to households typically earning 60% of the area median income (adjusted for a family of two is $34,443 in Fulton County, 2009) or below, in accord with federal policies.

It is also important to acknowledge the context within which our member organizations now work. Due to fraudulent, predatory, and unwise lending practices, the neighborhoods in which most of our members work are ravaged by foreclosures. These primarily African-American, low and moderate-income neighborhoods have sustained hundreds of foreclosures each month for a few years now. The Pittsburgh neighborhood south of downtown for example, has a home vacancy rate of over 50%. Fulton County (the majority of which is City of Atlanta) regularly sees over a thousand foreclosures per month. As of mid-September there were 87,679 foreclosure notices in the Metro Atlanta area, already surpassing last year's record number of 79,484. The GA Dept. of Labor reported that the jobless rate in Metro Atlanta rose to 10.5% in September. According to the Atlanta Business Chronicle, 28,000 Atlanta construction jobs have been lost in the last 12 months. Please see the attached Atlanta Business Chronicle articles for more detail.

Currently, our members generally develop two types of affordable housing: single-family homes for ownership, and multi-family homes for rent. Single-family homes developed for ownership typically use conventional financing for acquisition and/or construction, paired with federal funds such as the HOME program to subsidize affordability targets. Multi-family homes developed for rent almost always utilize the Low Income Housing Tax Credit (LIHC) program, as well as multiple other financing sources to create a viable development deal. LIHC is by far the most valuable resource for affordable rental housing development because of its role as a significant source of funding for development costs, and its widespread successful use. Despite this value, multi-family affordable housing developments targeting low-income families are very complex to finance in part because of low revenue generated by rental income, with extremely thin margins.

For organizations developing affordable single-family homes, financing for construction has simply been unavailable. One member having a lending relationship with a bank was informed by that bank that they would not finance construction 'until the market turned around'. Another organization which had secured financing to purchase a property for an affordable housing development and had completed the acquisition now faces foreclosure on that property because they cannot secure construction financing to complete the development. Payment of carrying costs and debt coverage on the property were dependent upon timely completion of construction and sale of the units. In a third example, an organization purchased a 20-unit partially-completed subdivision as a foreclosure-recovery project in 2008. Six homes had been completed and were in need of minor refurbishment. One unit had been partially completed, and the remaining 13 lots were still vacant. Unable to secure construction financing even for the minor refurbishments on the first six homes, the organization completed the work using in-house resources, and sold them all quickly, thus demonstrating that there is a market even now for homes at affordable price-points. Despite the sale of those homes, they have been unable to secure financing to complete the construction of the seventh home, or to begin construction on the remaining 13. Other organizations have said that they are not even trying to secure financing for developments now because they know it will not be forthcoming. These are clear examples of a very timid lending environment that is preventing economic development activity even as lenders themselves look for signs of improvement. Banks, particularly TARP recipients, must be encouraged to lend with reasonable terms.

On a separate note, while the six homes in the aforementioned subdivision were sold, the final appraisal for each came back lower than the purchase price, forcing the organization to lose money on each sale, even though the foreclosed subdivision had been purchased at a discount to begin with. Another member has received an unusually low final appraisal on one completed home that used only foreclosed properties as comparables, not any of the eligible normal-market transactions that have occurred in the area. This also resulted in the loss of money by the organization upon sale of the home. Each loss of revenue hampers our CDCs' capacity to deliver services because they must rely on revenue from development fees to support operations. While a recently-passed Georgia law requires that foreclosures be taken into account in the appraisal process to ensure a fair tax assessment for existing homeowners, these seem to be examples of over-compensation by appraisers, who now are also less likely to be familiar with neighborhood markets due to new federal arms-length transaction requirements. As demonstrated, property assessments are variables that have far-reaching implications for redevelopment activity, and reasonable fair assessment practices are critical to setting the tone for economic recovery in the housing sector.

Current financial conditions are heavily impacting the use of the LIHC program. As mentioned before, tax credits are the single most important source of rental affordable housing development financing, responsible for the development of over 6,000 affordable rental units each year in Georgia. They work as a dollar for dollar reduction in federal income tax liability. Affordable housing developers that are awarded housing credits partner with an equity investor who purchases the credits to reduce tax liability. The capital or equity received from the sale of these credits reduces the amount of debt or loans needed to cover the costs to construct affordable housing. As a result, rents can reach more affordable levels since less income is required to operate the development.

However, this program relies upon a healthy competitive economy for success, and the financial crisis has rendered the program ineffective. The value of the credits has dropped significantly in the market, effectively dismissing the incentive most responsible for the program's success. Freddie Mac and Fannie Mae, both major tax credit investors in the recent past have stopped purchasing tax credits. The pool of interested investors has shrunk due to a reduced need for tax shelter because of reduced corporate profits during the economic downturn. Less demand means investors that are at the table are demanding higher yields, resulting in lower equity pricing and much more stringent underwriting. These conditions put greater pressure on operating budgets for the developments, creating additional funding gaps that are derailing these projects. Investors have also cooled specifically on rural LIHC developments because of reservations over market conditions in those areas. To help revive the LIHC program, I offer three suggestions for policy reform:

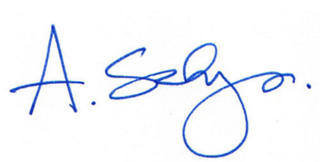
1. Extend the Housing Credit Exchange Program initiated in ARRA for one more year. This will provide direct access to development capital normally provided through the investment in tax credits.
2. Increase the investors' Housing Credit Carry-back period for up to five years with two provisions – that the entire amount carried back on existing housing will be immediately reinvested in new LIHC projects; and that future credits for new housing may be carried back for up to five years throughout the ten year credit period.
3. Diversify and expand the tax credit investor pool particularly for rural areas by allowing LLC's, S-Corps and closely held corporations to invest through the LIHC program.

Similar to the impact on single-family affordable developments, conservative lending practices are also playing a role in hampering LIHC projects. With few lenders willing to extend capital, those actually doing business are extending unfavorable terms. One member was required to rework their pro forma three different times trying to close on one project because the lender repeatedly changed the underwriting requirements. It became clear that there was no intent to actually lend, and the deal eventually fell through. One lender would not even agree to finance a deal that included income from a project based rental assistance (Section 8) agreement. Despite a contract from the local housing authority to guarantee that income each month, as well as LIHC investment, the lender would not underwrite. Another lender required higher operating expenses in a development pro forma, presumably to provide a greater level of insurance against debt service coverage. Despite having an extensive track record of operating very efficiently at a debt service coverage ratio of 1.15 (acceptable per the state housing finance agency), this organization was forced to try and work with a required debt service coverage ratio of 1.2 to 1.3. The resulting funding gap created by the need to raise minimum operating expenses killed the project. The requirement for carrying higher operating expenses runs counter to the need for efficiency in operation of any affordable housing development. Again, it is clear that the current lending environment is so conservative that it is actually preventing development and recovery efforts from moving forward. I will refer you to the attached Affordable Rental Housing A.C.T.I.O.N. Georgia Facts Sheet for more detail on the broader economic impact of this situation. TARP recipients and other banks must be encouraged to lend, and must play a part in breathing life into development activity.

There is also evidence from our partner micro-lending agency, the Atlanta Micro Fund (AMF), that lending practices for small businesses have tightened up as well. The AMF is a micro-lending Community Development Finance Institution, providing business coaching and small loans ($500-$15,000) to start-up businesses in targeted revitalization areas. They have seen a 40% increase in attendance at their weekly orientations since last summer, as well as an increase in the average credit scores of attendees from the low 500s last summer to the low 600s this year. While a boost for the AMF, this trend indicates that individuals with credit scores in the 600s, which normally have access to larger conventional business loans, are no longer able to secure those products. Indeed, one entrepreneur in good standing reported having his business line of credit suddenly closed, despite a history of full and timely payments.

In conclusion, I would like to reiterate that banks, particularly remaining TARP-recipients, must be encouraged to lend with reasonable terms again. That access to financing is critical to the affordable housing development industry, particularly at a time when the need for affordable rental units is rising. Given its role as a primary generator of affordable rental homes, the LIHC program must also be revived (per the three proposals above). Based upon the significant contribution that housing development has on the job and product markets in Atlanta, it is also critical to economic recovery in Georgia. Without it development will continue to stagnate, only increasing the negative impacts of rampant foreclosures on neighborhoods and communities. The NSP has begun showing signs of success creating and maintaining work in Georgia, but it will not itself lead to successful recovery without other sources of financing for parallel foreclosure- and economic-recovery initiatives. To maximize the results of our efforts, these other resources must be brought to full bear.

Sincerely,



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Attachments:
'Georgia gets a 'D' for housing, home ownership', Atlanta Business Chronicle, Sept. 22, 2009
'Atlanta's commercial builders go into survival mode', Atlanta Bus. Chronicle, Oct. 30, 2009
ACTION proposed LIHC revisions
ACTION LIHC Georgia fact sheet 10-09

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Consensus Housing Credit Proposal Talking Points

Background

- The most successful affordable rental housing production program in U.S. history — The Low Income Housing Tax Credit (Housing Credit) — has been adversely affected by the financial crisis.
- Housing Credit investment has dropped from about $9 billion in 2006-2007 to $5.5 billion in 2008, and, absent Congressional action, will likely drop further in 2009.
- The lack of investment capital is preventing the development of affordable housing at a time when need is greater than ever.
- The lack of development means tens of thousands of lost construction jobs, as many as 90,000 annually.
- The stimulus bill that passed Congress in February – the American Recovery and Reinvestment Act (ARRA) – provided a temporary solution for 2009: gap financing and approval for states to exchange some of their Housing Credit authority for direct funds from the Treasury.
- But those programs will expire at the end of this year and Congress needs to figure out where we go from here.

Industry Consensus

- Over the summer, an extraordinarily broad coalition of national, state, and local organizations active on affordable housing issues has reached a consensus on proposed legislative solutions.
- This coalition includes state housing agencies, developers, investors, Housing Credit syndicators, and affordable housing advocacy groups.
- We would like Congress to consider our proposals as part of the upcoming legislation to extend expiring tax provisions. Without extension, the temporary Housing Credit provisions will expire at the end of this year.

Proposals

- First, we would like to extend the Housing Credit exchange program from ARRA for one more year, and allow states to exchange Housing Credits generated from tax-exempt bond financed housing.

Consensus Housing Credit Proposal Talking Points

- Second, we would like to stimulate and restore long-term investment by increasing the Housing Credit carryback to up to five years in two ways:
  - For existing housing, this proposal would ONLY apply to Housing Credits if investors reinvest the entire amount carried back immediately into new Housing Credit investments.
  - For new housing, this proposal would make the Housing Credit more competitive with other tax credits with shorter compliance and holding periods, by permitting future credits to be carried back up to five years throughout the 10-year credit period.
- Finally, we propose to further broaden the investment base by permitting pass-through entities – LLCs and Subchapter S corporations – and closely held corporations to utilize the Housing Credit program as a means of attracting equity capital to rural areas of the country. This would diversify the investor base to include entities outside of commercial banking.
- We believe these are modest proposals that will restore affordable housing development throughout the country, create construction jobs, and help generate economic growth.

What are the impacts of these proposals?

- They would increase investment in the Housing Credit nationally by at least $5 billion more through 2011 than what the Housing Credit is projected to raise without legislation.
- Combined with the extension of the exchange, this would lead to:
  - 123,000 more affordable apartments constructed or rehabilitated,
  - 232,000 more jobs created or saved,
  - $50 billion in additional local income, and
  - $8 billion in additional taxes and revenue to localities nationwide.

Please go to http://rentalhousingaction.edicypages.com/about-action/state-fact-sheets for state-specific fact sheets on the economic impact of these proposals.

Tuesday, September 22, 2009

Georgia gets a ‘D’ for housing, home ownership

Atlanta Business Chronicle

Georgia, which has been rocked by a high rate of foreclosures in recent years, was given a “D” in housing and home ownership in the Corporation for Enterprise Development’s (CFED) 2009-2010 Assets & Opportunities Scorecard published Tuesday.

The bi-annual assessment of the financial security of households and individuals said Georgia must take several steps to improve financial security, including protecting the real estate market from predatory mortgage lending.

In Georgia, CFED found the median mortgage debt as a percentage of home value was 100.6 percent. This means the median homeowner in the Peach State is under water on his mortgage. The national median is 76.9 percent. Georgia ranks 49th in this category, ahead of only Michigan and Nevada.

“This data from the Scorecard, along with recently released numbers showing over a half million mortgages underwater in our state, is a clear signal that the foreclosure crisis is far from over,” said **Georgia Watch** Executive Director Angela Speir Phelps.

The Scorecard also laid out recommendations for Georgia to improve asset building and preservation, including addressing lending practices. Georgia can improve its “D” grade in housing and home ownership by banning prepayment penalties and adopting sound underwriting standards, the survey noted.

Affordable Rental Housing A.C.T.I.O.N.

Georgia Fact Sheet

The financial crisis has reduced investment in the most successful affordable rental housing production program in U.S. history — the Low Income Housing Tax Credit (Housing Credit). This program is the primary resource for the development of affordable rental housing nationwide. Since 1986, the Housing Credit has financed 9 out of every 10 of America's apartments for low-income families, providing affordable housing to more than 2 million Americans. Just before the financial crisis hit, the Housing Credit program financed about 120,000 apartments each year nationwide. In **Georgia,** the Housing Credit financed **6,165 affordable rental homes** annually.

Due to the weakened economy, investor participation is down by more than a third, from its peak in 2006. As a result of reduced demand for Housing Credits, capital sources for affordable rental housing are scarce. Absent Congressional action, this reduced demand will lead to roughly **60,000 fewer apartments** nationwide constructed or preserved annually, despite the fact that affordable rental housing is needed now more than ever. Furthermore, such reduced Housing Credit investment will likely lead to **90,000 lost construction jobs across the nation.**

What remains of most Housing Credit investment now is largely concentrated in developments in major metropolitan areas where the Community Reinvestment Act (CRA) is the primary motivation for investor demand for the Housing Credit. This makes it even more difficult to attract investment for housing located in rural areas or for smaller developments that do not satisfy CRA needs. For **Georgia**, this could mean a loss of up to **925** rental homes in rural areas annually and a loss of smaller developments of **90** apartments or fewer in size.

To address this reduced investment in affordable rental housing, the Affordable Rental Housing A.C.T.I.O.N. (A Call To Invest in Our Neighborhoods) grassroots campaign formed this year, led by a broad national coalition of cross-industry organizations, to draft consensus legislative proposals to restore investment in affordable rental housing. The campaign website www.rentalhousingaction.org provides up-to-date information on the campaign, the supporters and the legislative proposals.

If the A.C.T.I.O.N. campaign's legislative proposals are adopted, investment in both large and small developments as well as in metro and rural regions across the country will increase by nearly 50 percent in 2010 and 2011, according to a September 2009 report by Ernst & Young. Nationally, according to the report, the proposals would increase investment in the Housing Credit by at least **$5 billion** more through 2011 than what the Housing Credit is projected to raise without legislation. Combining this increased investment with an extension and modification of the exchange program, the proposals would lead to at least **123,000** more affordable apartments constructed or rehabilitated, **232,000** more jobs created or saved, $**50 billion** in additional local income and **$8 billion** in additional taxes and revenue to states and localities nationwide than if Congress does not act.

Georgia stands to benefit from at least **$188.4 million** in additional equity investment through 2011 that will be used to construct or rehabilitate **5,618** more affordable rental homes, providing safe, affordable housing to low-income families, while also stimulating the economy through the creation of **8,484** jobs.

This increased investment in **Georgia** would result in an additional **$2,285.3 million** in local income as apartments are constructed or rehabilitated and occupied during the 15-year Housing Credit compliance period. In addition to the jobs created through construction and development, the ongoing operation and occupancy of these apartments will also indirectly stimulate new jobs in retail, business services and other industries, resulting in an estimated **2,135** new ongoing jobs annually. Localities in **Georgia** can expect to see a return of **$357.5 million** in local government tax revenue due to the impacts of construction and the expansion of the tax base due to the ongoing operation of the apartment communities.