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POVERTY, PUBLIC HOUSING AND THE CRA: HAVE HOUSING AND COMMUNITY INVESTMENT INCENTIVES HELPED PUBLIC HOUSING FAMILIES ACHIEVE THE AMERICAN DREAM?

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERALISM AND THE CENSUS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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POVERTY, PUBLIC HOUSING AND THE CRA: HAVE HOUSING AND COMMUNITY INVESTMENT INCENTIVES HELPED PUBLIC HOUSING FAMILIES ACHIEVE THE AMERICAN DREAM?

TUESDAY, JUNE 20, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERALISM AND THE CENSUS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Michael R. Turner (chairman of the subcommittee) presiding.

Present: Representatives Turner, Dent, Shays, Foxx, Clay, Kanjorski, and Maloney.

Staff present: John Cuaderes, staff director; Juliana French, clerk; Jon Heroux, counsel; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. TURNER. Good morning.

Quorum being present, this hearing of the Subcommittee on federalism and the Census will come to order. Welcome to the subcommittee's hearing entitled, "Poverty, Public Housing and the CRA: Have Housing and Community Investment Incentives Helped Public Housing Families Achieve the American Dream?" This is the fourth in a series of hearings the federalism and the Census Subcommittee is holding on public and low-income housing.

The purpose of this hearing is twofold. First, we will examine the self-sufficiency and poverty deconcentration provisions of the Quality Housing and Work Responsibility Act. Second, we will examine the Community Reinvestment Act [CRA], and its purpose to public and affordable housing. Our first goal today is to gain a better understanding of whether QHWRA's self-sufficiency and poverty deconcentration provisions have helped Public Housing Authorities [PHAs], to improve the living situations of their tenants in a meaningful way. From what we have learned in our previous hearings, there is evidence that, despite some of the progress, the rules governing the calculations of rents and other incentives are still too complicated and cumbersome to use effectively. The Public Housing Authorities have cited numerous examples of the complexity within the current system and the burden that complexity brings to managing their portfolios. They have argued that this complexity is counterproductive and is diverting limited resources away from their primary mission which is their providing low-income families

with safe, clean and affordable housing. The Public Housing Authorities have repeatedly called for changes in the law they claim would ease this administrative burden. These changes range from simplifying the rent calculation process to expanding the Moving to Work program.

While these proposed changes may appear to be common sense approaches for addressing the problem, they may also have unintended consequences.

In this hearing, we hope to gain the perspective of tenant advocates. We also want to ascertain the impressions of our witnesses on any past or current proposals designed to address these issues. The second purpose of today's hearing is to review the public policy theory behind the Federal investment and public and affordable housing and the role of the Community Reinvestment Act and how it has played in achieving the public policy goals.

As the subcommittee learned in its May 23, 2006 hearing on public housing in the capital markets, the Community Reinvestment Act has provided incentives to some financial institutions to invest in low-income housing when they may not have otherwise done so. However, recent rule changes by the four agencies regulating financial institutions have caused some affordable housing advocates to be concerned that these goals may be undermined. It is their concern that these rule changes may weaken the effect the CRA has on future decisions by financial institutions to invest in affordable housing. For this reason, we have invited two CRA experts to testify on this topic. Before we move on, I would like to yield to our ranking member, the gentleman from Missouri, Mr. Clay for any opening remarks he may have.

[The prepared statement of Hon. Michael R. Turner follows:]

TOM DAVIS, VIRGINIA
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED NINTH CONGRESS

Congress of the United States

House of Representatives

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SUBCOMMITTEE ON FEDERALISM AND THE CENSUS
Congressman Michael R. Turner, Chairman

OVERSIGHT HEARING
STATEMENT BY MICHAEL R. TURNER, CHAIRMAN

Hearing topic: ***Poverty, Public Housing and the CRA: Have Housing and Community Investment Incentives Helped Public Housing Families Achieve the American Dream?***

Tuesday, June 20, 2006
10:00 AM
2154 Rayburn House Office Building

OPENING STATEMENT

Welcome to the Subcommittee's hearing entitled, "Poverty, Public Housing and the CRA: Have Housing and Community Investment Incentives Helped Public Housing Families Achieve the American Dream?" This is the fourth in a series of hearings the Federalism and the Census Subcommittee is holding on public and low-income housing. The purpose of this hearing is twofold. First, we will examine the self-sufficiency and poverty deconcentration provisions of the Quality Housing and Work Responsibility Act (QHWRA). Second, we will examine the Community Reinvestment Act (CRA) and its relationship to public and affordable housing.

Our first goal today is to gain a better understanding of whether QHWRA's self-sufficiency and poverty deconcentration provisions have helped Public Housing Authorities (PHAs) to improve the living situations of their tenants in a meaningful way. From what we have learned in our previous hearings, there is evidence that, despite some progress, the rules

governing the calculation of rents and other incentives are still too complicated and cumbersome to use effectively. The Public Housing Authorities have cited numerous examples of the complexity within the current system and the burden that complexity brings to managing their portfolios. They have argued that this complexity is counterproductive and is diverting limited resources away from their primary mission of providing low-income families with safe, clean, and affordable housing. The Public Housing Authorities have repeatedly called for changes in the law they claim would ease this administrative burden. These changes range from simplifying the rent calculation process to expanding the Moving to Work program. While these proposed changes may appear to be common-sense approaches for addressing the problem, they may also have unintended consequences. In this hearing, we hope to gain the perspective of tenant advocates. We also want to ascertain the impressions of our witnesses on any past or current proposals designed to address these issues.

The second purpose of today's hearing is to review the "public policy theory" behind the federal investment in public and affordable housing and the role the Community Reinvestment Act (CRA) has played in achieving that public policy goal. As the Subcommittee learned in its May 23, 2006, hearing on public housing and the capital markets, the Community Investment Act has provided incentives to some financial institutions to invest in low-income housing when they may not have otherwise done so. However, recent rule changes by the four agencies regulating financial institutions have caused some affordable housing advocates to be concerned that these goals may be undermined. It is their concern that these rule changes may weaken the effect the CRA has on future decisions by financial institutions to invest in affordable housing. For this reason, we have invited two CRA experts to testify on this topic.

Today we have five witnesses. First, we will hear from John Gutzmann, President of the Public Housing Associations Director's Association (PHADA) and Executive Director of the St Paul Public Housing Authority. Next we have George Moses, Chairman of the Board of the National Low Income Housing Coalition and a tenant organizer in Pittsburgh, Pennsylvania. Following Mr. Moses we will hear from James A Riccio, Director, Low-Wage Workers and Communities at MDRC, a research institution focusing on social programs.

On the issue of the CRA, we will hear first hear from Benson "Buzz" Roberts, Senior Vice President for Policy and Program Development at Local Initiatives Support Corporations, better known as LISC. Finally, we hear from Judith Kennedy, President and CEO of the National Association of Affordable Housing Lenders (NAAHL).

####

Mr. CLAY. Mr. Chairman, I thank you for holding today's hearing to examine how well programs to decrease widespread poverty in public housing are working. I welcome our witnesses and look forward to their testimony.

There have been significant pros and cons raised concerning both public housing rental costs and efforts to develop mixed-income housing, the options for a resident. Although current law seeks to protect the poorest of residents with the 30 percent cap on rent, many lower-income working individuals are now contributing upwards to 50 percent of their annual income toward rent. This is a major concern for me as many public housing residents that return to work end up in low-wage jobs with little hope for advancement.

Furthermore, I have significant concerns about the elimination of program requirements to replace a decommissioned housing unit with a new unit on a one-to-one basis. This policy, coupled with reductions in the number of housing vouchers available, is causing significant decreases in the availability of affordable public housing units for many low-income working citizens.

As I've previously stated, if the Federal Government cannot be considered a reliable funding partner, our capital markets will have little incentive to remain a contributor to the development and maintenance of public housing programs. While the Community Reinvestment Act and other proposals are helpful, pure economics will not permit adequate investment without a strong commitment from both the Congress and the administration. This concludes my remarks, Mr. Chairman, and I yield back.

[The prepared statement of Hon. Wm. Lacy Clay follows:]

STATEMENT OF CONGRESSMAN WM. LACY CLAY
HEARING ON PUBLIC HOUSING
JUNE 20, 2006

Mr. Chairman, I thank you for holding today's hearing to examine how well programs to decrease widespread poverty in public housing are working. I welcome our witnesses and look forward to their testimony.

There have been significant pros and cons raised concerning both public housing rental costs and efforts to develop mixed-income housing options for residents. Although current law seeks to protect the poorest of residents with a 30% cap on rent, many lower-income working individuals are now contributing upwards to 50% of their annual income toward rent. This is a major concern for me, as many public housing residents that return to work end up in low-wage jobs with little hope for advancement.

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This concludes my remarks, Mr. Chairman, and I yield back.

Mr. TURNER. Thank you, Mr. Clay.

Today we have one panel of five witnesses. The first three witnesses will discuss the self-sufficiency and poverty concentration topic. Next, as I just mentioned, the last two witnesses will discuss the Community Reinvestment Act and its relationship to affordable and public housing. First, we will hear from Jon Gutzmann, president of Public Housing Authorities Directors' Association, and executive director of the St. Paul Public Housing Authority. Next, we have George Moses, chairman of the board of the National Low Income Housing Coalition and a tenant organizer in Pittsburgh, PA. Following Mr. Moses, we will have James A. Riccio, director of low-wage workers and communities at MDRC, a research institution focusing on social programs. On the issue of the CRA, we will first hear from Benson "Buzz" Roberts, senior vice president for policy and program development at Local Initiatives Support Corp. [LISC]. And, finally, we have Judith Kennedy, president and CEO of the National Association of Affordable Housing Lenders, who will also be speaking to us on the CRA.

I welcome each of you here today, and we look forward to your comments. Each witness has kindly prepared written testimony which will be included in the record of this hearing. Witnesses will notice that there is a timer light on the witness table. The green light indicates that you should begin your prepared remarks, and the red light indicates that your time has expired. The yellow light will indicate when you have 1 minute left in which to conclude your remarks. It is the policy of this committee that all witnesses be sworn in before they testify. So if you would please rise and raise your right hands.

[Witnesses sworn.]

Mr. TURNER. Let the record show that all the witnesses have responded in the affirmative.

And we will begin our testimony today with Mr. Gutzmann.

STATEMENTS OF JON GUTZMANN, PRESIDENT, PUBLIC HOUSING AUTHORITIES DIRECTORS' ASSOCIATION, EXECUTIVE DIRECTOR, ST. PAUL PUBLIC HOUSING AGENCY; GEORGE MOSES, CHAIRMAN OF THE BOARD OF DIRECTORS, NATIONAL LOW INCOME HOUSING COALITION; JAMES RICCIO, DIRECTOR, LOW-WAGE WORKERS AND WORKING COMMUNITIES POLICY AREA; BENSON F. "BUZZ" ROBERTS, SENIOR VICE PRESIDENT, POLICY AND PROGRAM DEVELOPMENT, LOCAL INITIATIVES SUPPORT CORP.; AND JUDY KENNEDY, PRESIDENT AND CEO, NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS

STATEMENT OF JON GUTZMANN

Mr. GUTZMANN. Thank you, Chairman Turner and subcommittee members.

I am Jon Gutzmann and the president of the Public Housing Directors Association. I am also the executive director at St. Paul Public Housing, a position I have had for the last 18 years. I'm testifying on behalf of PHADA, its 1,900 members and St. Paul Public Housing, which has 20,000 low-income households, and I'm advocating on behalf of the 1.2 million households that live in public

housing. Public housing is 1 percent of the housing supply in America. Our agency has been rated a high performer ever since it was created. We collect 99 percent of the rent. We've been 99 percent occupied for 7 consecutive years, have had no audit findings for 9 years and many more things. And I point to those out of pride but also say they're representative of most housing authorities in the country.

As I mentioned, housing represents 1 percent of housing in America, and it's under assault. More than 60 percent of public housing residents have incomes below 30 percent of AMI. The average income of $11,000, frankly, is about 20 percent of AMI. The shelter is for mostly very poor, mostly elderly, mostly disabled and a vast majority who either work or are on a pension but is under severe distress.

And the source of distress is threefold. The shrinking Federal financial support from Congress, burdensome micromanagement from HUD, and a real resistance to change and deregulation from some of our advocacy colleagues. The combination of these influences place the public housing program in jeopardy. And although appropriations are not a matter of this subcommittee's jurisdiction, I think it's difficult to talk about policy reform without talking about the dollars. Our programs have lost $1.4 billion in the last 4 years. The House recently approved the appropriation budget for 2007. And in it, $250 million is eliminated from the capital fund, and the operating fund is only funded at 78 percent. Contrary to the deregulation and decontrol goals of QHWRA, housing authorities face unprecedented levels of micromanagement and oversight from HUD. HUD is ignoring its recommendations from its inspector general and how they want us to set up procurement. HUD is moving away from GAAP accounting requirements and implementing new mandates and more.

So added to the funding problem and the HUD micromanagement, it just seems that our programs are under assault, and I predict that many housing authorities will be out of business within a few years. PHADA has supported for over 15 years national policy alternatives that preserve the public housing asset and improve the quality of the stock and the way we conserve residents. We believe in deregulating public housing and getting the true flexibility that QHWRA promised. We want to support and maintain communities within public housing and encourage appropriate levels of self-sufficiency by residents.

We do endorse the Moving to Work programs that have been advocated. The recently introduced Moving to Work Charter Program Act, Senate 3508, would make the demonstration permanent, expand a number of participants from the current 27 to 250 agencies of diverse size. In the experiences of the existing Moving to Work communities like Keene, NH, Portland, OR, and others, demonstrate that housing authorities can establish rent structures that preserve affordability while rewarding work. There are documented positive outcomes in these housing authorities, and there are no documented outcomes of PHAs rushing to the marketplace with their rents, which is a fear many of our advocate friends have.

Others would say these are anecdotal. Well, the anecdote of the Keene Housing Authority added to the anecdote of the Tulare

County Housing Authority are real tenants and many of them who have successfully transitioned from welfare to work while maintaining affordability.

We've had experiences in my housing authority with unanticipated outcomes of the existing rent structure where people quit their jobs when the earned income disregards expire. PHADA has promoted rent reform for the last 15 years. In 2004, we introduced our rent reform proposal. It has two alternatives we believe would resolve this problem. One is a tiered rent system that resembles the Low-Income Housing Tax Credit System. It can be made affordable. And the second is a simplified income-based rent system. I'll stop right there, Mr. Chairman, and take your questions later.

[The prepared statement of Mr. Gutzmann follows:]

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Testimony of Jon Gutzmann

President

The Public Housing Authorities Directors Association

before the

House Government Reform Subcommittee on Federalism
and the Census concerning

"Poverty, Public Housing and the CRA: Have Housing and Community Investment Incentives Helped Public Housing Families Achieve the American Dream?"

Rayburn House Office Building
Room 2247

Tuesday, June 20, 2006

Thank you, Chairman Turner and subcommittee members, for holding this important hearing. My name is Jon Gutzmann. I am the President of the Public Housing Authorities Executive Directors Association, a position I have held since 2004. PHADA is a membership organization that currently serves almost 1,900 Executive Directors and chief executives of housing authorities throughout the United States. PHADA has served as an advocate for these agencies for over 25 years. I have also served as Executive Director of the Saint Paul Public Housing Agency for the last 18 years. Previously, I was the Director of Public Housing for the Minneapolis Public Housing Authority for 7 years. I am testifying on behalf of PHADA, its 1,900 members, the Saint Paul PHA, the 20,000 low-income households we serve, and the 1.2 million households in public housing apartment complexes nationally. I speak as a provider of affordable housing, as an advocate who has worked directly with and for the residents of public housing and participants in the Housing Choice Voucher program for the past 25 years, and as a leader of the premier national association representing the interests of housing authorities.

The agency I lead owns and operates 4,300 public housing units and administer 4,000 Housing Choice Vouchers, providing safe, affordable, quality housing to over 20,000 people. We have been rated a high performer under the Public Housing Assessment System for 14 consecutive years and a high performer under the Section Eight Management Assessment Program for four years. Our scores are often 100% for each program. We carefully screen applicants for admission into public housing, collect 99.5% of all rent charged, perform 35,000 work orders per year in an average of 2 days per work order, have been at 99% occupied for seven consecutive years in public housing and full utilization of Section 8 vouchers for four years. We have had no financial audit findings for nine consecutive years, and we fully expend capital funds over one year ahead of HUD's requirements. I point to these accomplishments out of pride of course, but also to say that they are representative of most housing authorities in the nation.

Whom We Serve

The 75-year-old low-income public housing program offers shelter for some 1.2 million American households that include approximately 2.4 million people. Although many still hold that public housing residents are minority single women with several children who receive welfare, don't work, and live out their lives in public housing, the facts should disabuse us of this stereotype. Almost 1 in 3 public housing households include workers and 55 percent receive pension or disability income. Only 1 of 5 public housing households receives any form of welfare. 49 percent of these households are either elderly or disabled, and a woman heads only 1 of 3 households with children. Over half of public housing households are white, 46 percent are African American, and 22 percent are Hispanic or Latino. Fewer than half of these residents have lived in Public housing longer than 5 years, and only 13 percent have lived in public housing for more than 20 years. These households do not conform to the stereotype. However, they are overwhelmingly poor. More than 60 percent of public housing households have incomes below 30 percent of area median income (AMI), and only 9 percent have incomes higher than 50 percent of the median income. The average annual income of public housing households is only $11,437. This presents special challenges and opportunities, both for self-sufficiency programs and efforts to deconcentrate poverty. Despite claims from some advocacy organizations, HAs have not chosen to house more residents that are affluent since targeting provisions of QHWRA took effect.

This shelter for mostly very poor, mostly white, mostly elderly and disabled households, the vast majority of whom earn a living or receive a pension is currently under severe distress. Sources of this distress include shrinking federal financial support from the Congress, burdensome micromanagement, and administrative oversight by HUD, and resistance to real deregulation and reform by some advocacy organizations and policy makers. In combination, these influences place the public housing program and local housing authorities in serious jeopardy.

The Context for the Foreseeable Future

Although appropriations may not be a matter subject to this subcommittee's jurisdiction, funding provides the context in which discussions of potential policy reforms must take place. An obvious source of distress is the state of proposed appropriations that will support the program in the next federal fiscal year and thereafter. Sources of federal support for public housing have included the Operating Fund, the Capital Fund, the Public Housing Drug Elimination Program (PHDEP) and HOPE VI. Since 2000, funding for these programs has declined by $1.4 billion in the aggregate, including the elimination of PHDEP funding. In the coming fiscal year, HUD has proposed and the House Appropriations Committee has endorsed eliminating HOPE VI funding, reducing the Capital Fund by $250 million, and funding the Operating Fund at only 78 percent of subsidy eligibility. The Office of Management and Budget may have slated public housing funding for an additional $1 billion reduction for the 2008 fiscal year. Finally, while appropriations proposals only support 78 percent of the national subsidy eligibility, HUD's implementation of a new Operating Fund formula will reduce funding for some so-called stop-loss agencies' subsidy eligibility even further. One PHADA member faces a 45 percent drop in formula subsidy eligibility. The combination of the formula change and the appropriations proration will impose a subsidy reduction on that agency of 30 percent in 2007 and almost 50 percent by 2010.

Along with this level of fiscal distress, authorities face unprecedented levels of micromanagement and detailed oversight from the Department of Housing and Urban Development. HUD is demanding implementation of a highly prescriptive hybrid version of asset management beginning between October 2006 and July 2007. The department has yet to publish a complete set of standards for compliance with this hybrid asset management. Ignoring recommendations of HUD's Inspector General, HAs must decentralize their procurement operations. They must also dismantle any central material warehousing operations, and reorganize supervision of routine and specialized maintenance, housing inspections, eligibility and waiting list management. HUD is insisting that HAs move away from GAAP accounting and implement a new but undefined HUD mandated chart of accounts. To its ongoing Rental Integrity Monitoring (RIM) reviews, the department has added a new annual Comprehensive Review protocol covering those agencies using 80 percent of HUD's public housing and voucher funding along with a random sample of other smaller HAs. Some HAs have reported visits by 4 teams of HUD reviewers since January 2006 covering areas such as RIM reviews, Comprehensive Reviews, Fair Housing and Equal Opportunity reviews and IG reviews.

Finally, advocacy organizations and liberal policy makers have criticized initiatives aimed at reforming elements of federal assisted housing policy that promise a more equitable, responsible

and responsive program. Some proposals currently on the agenda would reduce rent revenue for public housing by changing the basis for calculating rent while housing authorities are facing unprecedented reductions in federal support. Meanwhile, material and construction costs are increasing and utility and fuel costs are rising dramatically. In the face of this looming crisis, until very recently organizations that advocated with PHADA and others very effectively for the Housing Choice Voucher program have been strangely silent. Somehow, the massive outpouring of advocacy on behalf of Housing Choice Voucher holders in the past three years has translated to modest and brief advocacy for the poor who reside in public housing apartments.

In response to these stressors, HAs report taking a number of different steps designed to improve their survivability. My own housing authority has laid off significant proportions of staff, weakening our capacity to serve our residents and program participants responsively and with dignity and respect. We are now considering delaying the implementation of policies that would tend to raise our operating costs and our annual deficits. Agencies have reported survival tactics such as the creation of separate housing authorities to carry out development initiatives, insulating them from their public housing operations which are increasingly threatened by financial uncertainty and instability. The press has reported that the Salt Lake City Housing Authority has initiated steps to dispose of its approximately 600 public housing units, converting the assistance to tenant based Housing Choice Vouchers. The agency anticipates that proceeds from the disposition will enable it to produce over 1,200 affordable housing units, but it is not clear whether that housing would be available to households with incomes as low as those currently residing in public housing.

PHADA's Suggested Solutions

For over 15 years, PHADA has suggested national policy alternatives that preserve public housing assets and improve both the quality of that stock, its operation, and the ways the program serves its residents. These alternatives could also help HAs weather their current difficulties. The alternatives 1) deregulate the public housing program and offer local agencies the flexibility promised in QHWRA, 2) support and maintain communities within and surrounding public housing apartment complexes, and 3) encourage appropriate levels of self-sufficiency for residents and incentivize employment.

Moving to Work

PHADA endorses the Moving to Work demonstration and advocates that the demonstration become a permanent policy alternative and that the number of participating agencies be increased. The recently introduced Moving to Work Charter Program Act of 2006 (S. 3508) would make the demonstration permanent, facilitate development of MTW Charter Contracts, and expand the number of participants from the current 27 to 250 agencies diverse in their size and their location. Another much less attractive alternative contained in the Section 8 Voucher Reform Act of 2006 (H.R. 5443) would only add 13 agencies and would restrict MTW agreements to 3 year terms.

The experiences of agencies as diverse as Cambridge, Massachusetts, Keene, New Hampshire, Portland, Oregon, and Tulare County, California, demonstrate the potential of the MTW

demonstration. At the Keene Housing Authority, participants in the Resident Self Reliance Program reporting no income declined by 50% from 1999 to 200 from 6 families to 3 families, and participants with incomes in excess of $30,000 grew 25 times from 2 families to 51 families. According to ABT Associates' 2005 annual monitoring report, at the Housing Authority of Tulare County:

> MTW program participants have experienced much higher increases in income than participants in HATC's income-based programs.

and:

> HATC has strong anecdotal evidence from housing inspectors, landlords, and eligibility clerks that MTW voucher participants are leasing units in a wider range of neighborhoods than their income-based counterparts.

With these documented outcomes, the claim by some that, "there is no data," seems disingenuous. Others assert that this information is only anecdotal. The anecdote of the Keene Housing Authority's MTW success includes the stories of hundreds of public housing residents and Housing Choice Voucher participants. The anecdote of the Housing Authority of Tulare County's MTW successes includes the stories of over 3,400 program participants. Altogether, the anecdotes concerning residents and participants at MTW housing authorities involve tens of thousands of low-income households. The flexibility of MTW offers participating housing authorities the tools they need to address local and federal policy preferences, improve their ability to offer affordable, deeply assisted housing opportunities to families, the disabled and elders, and offer effective incentives for increasing earned income.

The Urban Institute developed an assessment of MTW's national impacts and implications under contract with HUD's Office of Policy Development and Research. While the Urban Institute's assessment of MTW pointed out limitations on potential conclusions, it confirmed that:

> Although rent contributions (and housing cost burdens) rose for some residents, there is no evidence of severe hardship or increased evictions from public and assisted housing.

In its conclusion, the report suggested that:

> The MTW evidence available to this point suggests that further deregulation of local HAs may, indeed, yield benefits in terms of program design and implementation innovations …

The MTW Charter Program Act of 2006 provides both the expansion and the oversight called for in the Urban Institute's assessment.

Despite reports from MTW agencies concerning outcomes of their policy changes, annual reports, case studies, and a national assessment prepared by research organizations under contract with HUD, and annual reports to HUD from MTW agencies to the contrary, some advocacy organizations continue to claim that under MTW HAs will evict extremely poor people, raise rents to unreasonable levels and admit only those households with incomes just below the eligibility limits of 80 percent of Area Median Income. The facts of the MTW program and the performance of HAs more generally since passage and implementation of QHWRA and its targeting provisions utterly contradict those claims.

Rent Reform

Recently, in response to a report on the accuracy of rent calculations in assisted housing programs, HUD developed the Rental Housing Income Integrity Program (RHIIP), a three-pronged initiative designed to improve the accuracy of rent setting. The department has established Rental Income Monitoring (RIM) reviews to oversee the accuracy of program sponsors' income and rent calculation, and it has established an Enterprise Income Verification system (EIV) that makes Social Security Administration benefit data and Department of Health and Human Services wage data available to HAs as they determine household income for their programs. Unfortunately, the department has not implemented the third element in RHIIP, simplification of the rent setting protocols in deeply assisted housing programs. PHADA has been advocating reform of assisted housing rent protocols for over 15 years, and believes that reforming the rent system is fundamental to improving deeply assisted housing.

In 2004, PHADA published, Rent Reform: Fair and Simple Solutions. There we argued the case made by Mr. Curt Hiebert in testifying before this subcommittee that the current system for setting rents in public housing, "encourages deceit confuses applicants, tenants, housing authority staffs, policy makers, and the general public. There are significantly different rents for virtually identical housing, the system punishes work, and the system, not surprisingly, results in errors." To that, I would only add that the current system of income and rent determination, referred to by a PHADA Trustee as "snoopervision," represents a deep and ongoing intrusion by HAs and by HUD into the personal affairs of each of the 2.4 million public housing residents and every public housing applicant. The processes required for income and rent calculations compromise public housing residents' and applicants' privacy by disclosing their status as recipients or applicants of federal housing assistance to their employers, their schools, their medical care providers, their childcare providers, their banks, former spouses, and former partners among others. Staffs of the 3,200 HAs operating public housing collect and control this personal information and submit it to HUD. The uncertain security of data maintained by private sector data collection organizations such as ChoicePoint, and most recently by the Department of Defense and the Department of Veterans Affairs highlights the risks of exposure for public housing residents and applicants due to our snoopervising data collection and transmission. In addition to these privacy concerns, HUD's income verification and rent calculation requirements raise administrative costs for every housing agency. Last year my staff performed over 4,200 annual income reexaminations for public housing households, and almost 3,300 interim reexaminations for households whose income or other circumstances changed during the year.

Our experiences in St. Paul reinforce the unanticipated, counterintuitive outcomes of the existing rent setting protocols. For example, one single head of house went to work for approximately $10 per hour. My staff understands that this resident quit her job because neighbors said the rent would go up, and pressed the family to quit. Staff could not convince the resident that her rent would not increase unreasonably. In another case, after completing a training program and becoming employed for $15 per hour, a head of one household paid our $25 minimum rent for 12 months, and then paid a rent of $390 based on 50% of earned income for another 12 months. After a promotion raised wages to $21 per hour and the earned income disregard expired, this household's rent rose by 233 percent to $1,068. The household was unable to adjust to this dramatic rent increase, failed to pay rent on time and we evicted the family from public housing for non-payment. These outcomes were not the ones we prefer, but are the outcomes produced by the existing rent setting protocols.

Solutions for these deficiencies lie in rethinking the fundamentals, not in tweaking marginal details in the current rent policies. PHADA has endorsed two potential alternatives that we believe would resolve many of the current policy's difficulties. The first is a tiered rent system that resembles the rent protocols of the Low Income Housing Tax Credit program. The second is a radically simplified income based system that uses historical income information, bases rent on gross income, and uses rent-to-income ratios that compensate for differential federal tax treatments of different kinds of income. Either of the alternatives described in PHADA's publication would go a long way toward correcting the deficiencies and dysfunctions of the current rent policy, and PHADA believes that these systems would also achieve three important policy goals. They would encourage earned income; they would maintain housing affordability for extremely low-income households; and they would achieve real rent simplification.

HOPE VI

HOPE VI is currently the only federally funded initiative that can develop or redevelop public housing apartment complexes and their surrounding neighborhoods. The program offers opportunities to deconcentrate very poor households by offering existing public housing residents alternative assisted housing opportunities and by recapitalizing and repositioning public housing apartment complexes as mixed income communities in revitalized mixed income neighborhoods. PHADA believes that Congress must reauthorize and fully fund HOPE VI to permit the continuing recapitalization and reinvention of the aging public housing stock. Through efforts like HOPE VI, public housing can contribute to the stability and the improvement of local communities and open attractive housing options to extremely low-income households that are otherwise not available to them. Studies sponsored by HUD have documented the decades-long $20 billion disinvestment in public housing and the ongoing requirement for reinvestment and recapitalization of that asset. Housing authorities and the federal government owe a duty to the 1.2 million public housing households as well as the much larger number of households that live in surrounding neighborhoods to maintain that housing as a neighborhood anchor, to encourage the growth of mixed income resident populations, and to offer real opportunities for extremely low income households to live in less impoverished neighborhoods of their choosing.

One element in public housing repositioning encouraged by the HOPE VI program that has been very useful to housing authorities is its emphasis on the participation of the private sector in these projects. The use of mixed financing packages, the participation of private developers as contractors or partners, and the participation of the banking industry in financing HOPE VI projects has helped many agencies establish broader business relationships with private sector organizations. These new relationships have contributed to broadening the roles assumed by authorities such as Atlanta, Portland, Vancouver, and Philadelphia in developing affordable housing as well as deeply subsidized housing. Federal policies embodied in the Community Reinvestment Act have provided the banking sector with incentives to take on such projects that may impose higher levels of risk or offer lower returns on investment than would otherwise be attractive. In addition to policies such as the CRA, however, lending institutions must see that projects have stable and robust revenue streams similar to that enjoyed in the Section 8 Project Based program. The adhesive, illusory public housing Annual Contributions Contract (ACC) fails to provide any assurance at all that the government will continue, or even begin, to fulfill its financial obligations to public housing apartment complexes. Not even the CRA will overcome perceptions of risk and funding instability introduced to the public housing program in the past 6 years.

Other Initiatives

MTW, rent reform and HOPE VI represent initiatives that PHADA has historically supported. However, other approaches can also contribute to the survival of public housing and permit it to thrive. Two bills currently under consideration would help alleviate some administrative burden faced by small housing authorities. The Small Public Housing Authority Act (H.R. 3422) would remove some requirements for annual plan development and submission for housing authorities with fewer than 250 public housing apartments and Housing Choice Vouchers. A more attractive alternative introduced by Senator Sununu, the Small Public Housing Authority Paperwork Reduction Act of 2006, (S. 2707) would remove such requirements for agencies operating 500 or fewer public housing apartments without regard to the size of their Housing Choice Voucher program. PHADA supports Senator Sununu's version of this deregulation legislation, believing it offers real relief to more than a small minority of HAs.

The Jobs Plus initiative in which the St. Paul Housing Agency participated permitted my agency to see significant changes in the sources and amounts of income among members of 357 participating public housing households. The program was costly, but it demonstrated that real incentives and support services can make significant improvements in household self-sufficiency. The proportion of households with earnings rose from 16 percent to 51 percent during the program's 7 years, and the wages of households with earnings almost doubled to over $24,000. 41 participating households became homeowners during the program. The Jobs-Plus model requires both funding and flexibility to create rent incentives, as well as the development of local partnerships and the agency's commitment.

PHADA's sister organization, the National Association of Housing and Redevelopment Officials (NAHRO) has just published a proposal that would permit 100 public housing apartment complexes around the country to convert to project based Section 8 contracts in a Pilot Program for Conversion of Public Housing to Project-Based Assistance. The proposal would demonstrate

that public housing apartment complexes can offer options for decent, affordable, deeply subsidized apartment complexes comparable to that provided by private sector developers when those properties are assured of adequate long term funding support under a contract that offers more than the lip service for funding contained in the public housing Annual Contributions Contract.

There are also incremental, less attractive alternatives under consideration by the Congress. The House Financial Services Committee has endorsed a bipartisan Section 8 Voucher Reform Act of 2006 (HR 5443). The bill would change the funding formula for tenant based Housing Choice Vouchers once again, would make minor adjustments to the rent and income calculation protocols, and would slightly increase the number of MTW agencies. Although most of these changes are attractive to HAs and conform to some elements of PHADA's ongoing policy suggestions, they fail to reach the root of problems faced by the public housing program. The bill also constrains rental income in both the public housing and the Housing Choice Voucher programs when it seems unlikely that the federal government will increase subsidy funds proportionally. Hence the bill may exacerbate the severe fiscal crisis facing public housing and may further reduce the numbers of people HAs will be able to serve with Housing Choice Vouchers. The MTW provisions of this bill fail to address program deficiencies identified by the Urban Institute, and it only increases the potential number of participating agencies by 13 to 40. Altogether, the bill fails to address the public housing programs need for reform adequately.

Last year, HUD developed a legislative proposal, the State and Local Housing Flexibility Act (SLHFA) that has been introduced in both the House (H.R. 1999) and the Senate (S. 771). The bills included 3 titles, one transforming the Housing Choice Voucher program to a block grant, a second making significant changes to the rent protocol in public housing much more in keeping with PHADA's recommendations, and a third that modestly expands the MTW program and makes the demonstration program permanent., However, PHADA and other industry and advocacy organizations have grave concerns about several provisions in the bills. So far, it does not appear that Congressional committees are interested in taking the bills up.

A final set of administrative initiatives under consideration by some HAs may offer some intermediate relief from the looming crisis. Agencies are expressing interest in requesting waivers of non-statutory requirements that approach MTW-like levels of deregulation. The Secretary of HUD can currently grant reasonable requests for waivers of such non-statutory requirements, he does so frequently, and HUD publishes semi-annual lists of waivers granted in the Federal Register. Whether the Secretary will grant broad requests for regulatory waivers remains to be seen. Agencies are also reporting the use of administrative discretion to delay implementing administrative practices that tend to raise operating costs or accelerate implementing administrative practices that tend to raise operating revenue. These can include such matters as revisions to utility allowances and revisions to schedules of charges and fees that public housing residents must pay for services as a lease condition. My PHA has also sold off some scattered site public housing homes, and we are considering more sales. The sale proceeds can be used to offset subsidy shortfalls for operating and capital costs, and we save the cost of making major improvements to those units, but obviously it reduces the PHA's housing stock and it re-concentrates poverty since most scattered site units are in lower poverty areas than are our family housing developments. Housing authorities generally do not find these practices

attractive, and they will not address all sources of distress in the public housing program. They do represent incremental contributions to the survival of the public housing program, however.

Conclusion

The state of the public housing program in 2006 demands serious attention and real reform. The combination of fiscal distress, administrative micromanagement, and liberal opposition to fundamental change has placed the program and its multi-billion dollar asset in grave jeopardy. Unfortunately, the positive contributions public housing can make to the revitalization of poor neighborhoods will assume less salience as long as the survival of the program and of its sponsoring institutions is at risk, as it is today.

Initiatives that hold great promise for the improvement of the quality of life in neighborhoods, in public housing apartment complexes, and in individual households' lives cannot fulfill that promise in an environment where the program and housing authorities are strangling. Conservatives in both parties are rightly concerned with current fiscal circumstances. Moderates and liberals in both parties are rightly concerned with protecting the housing assistance currently used by 1.2 million households in public housing and 1.8 million households using Housing Choice Vouchers. The public housing program would be well served by the good faith attention of conservatives, moderates, liberals, and HUD to its long-term viability, its long-term growth, and its long-term promise of deep housing assistance through mixed income communities anchoring the revitalization of moderate-income neighborhoods. PHADA and others have put forward a series of policy proposals for over a decade that present opportunities for just that kind of attention, and I invite the participation of all of the industry groups, all of the advocacy organizations and every element within the policy making community to participate in improving, rather than dismantling, public housing.

Mr. TURNER. Thank you.
Mr. Moses.

STATEMENT OF GEORGE MOSES

Mr. MOSES. Thank you, Mr. Chair. Thank you to the subcommittee. My name is George Moses. Thank you for the opportunity to testify before the House Government Reform Subcommittee on federalism and the Census. I am chair of the board of the National Low Income Housing Coalition. I reside in Pittsburgh, PA, where I am a tenant organizer, member of the Southwestern Pennsylvania Alliance of HUD Tenants and a member of the Board of Directors of the Housing Alliance of Pennsylvania. I was a project-based Section 8 resident for 15 years until last month.

The National Low Income Housing Coalition is focused exclusively on what is in the best interest of people who receive and those who are in need of Federal housing assistance. These are people with low incomes. Our research has shown that there is nowhere in the United States where you can work full time at minimum wage and afford the local fair market rent for a one-bedroom apartment. The private market does not meet the housing needs of the lowest-income Americans.

In Pittsburgh, there's a deficit of more than 15,000 units affordable and available to people with low incomes below 30 percent of the area median. Unless this reality changes, the Federal Government has to help bridge the gap between housing costs and what low wage earners and people on fixed incomes can afford.

If we define self-sufficiency as being able to take care of one's self and one's family, I would argue that all residents of Federal assisted HUD housing are self-sufficient because they have found ways to afford housing in a market where there simply are no affordable alternatives.

HUD's Moving to Work has in its name the words "moving and work" but this demonstration with public housing cannot show itself to have accomplished its goal, reducing costs or increasing housing choices. The jury's still out on this demonstration model to achieve its goals. HUD's own reports as well as the HUD's inspector general have issued inconclusive reports on Moving to Work. We fear the real motive behind the proposed expansion of the Moving to Work is to give PHAs the authority to disregard their statutory requirements of meeting the needs of the lowest-income people in an affordable way in order to cope with the continued cuts in the PHA budgets caused by Congress's failure to appropriate significant funds to run PHAs. This is not an acceptable reason to take a huge risk in the well being of millions of people with modest means.

To many neighborhoods, they might not look like good neighborhoods. My neighborhood was such a neighborhood, but there was a lot of good neighboring. We must be extremely careful when we interrupt this neighboring and community under the name of revitalization and deconcentration of poverty. When you tear all that apart, you don't know your neighbors; you don't know where to turn when you need a baby sitter, a friend, a quart of milk or just someone to talk to.

From our perspective, it's about choice. HOPE VI demolishes public housing under the name of deconcentration but only provides vouchers that can be used in other high-poverty neighborhoods. This is not choice. To claim to want to deconcentrate but then offer no real choice for how extremely poor people can afford to live in low-poverty areas is much more about displacement of the Nation's Federal housing safety net. And I would recommend that folks read, Root Shock, by Dr. Mindy Fullilove, who explains this very well.

Congress's appropriations must ensure that housing assistance funds serve the lowest-income households. In Pennsylvania, more than 87 percent of the households with incomes below 30 percent of the area median pay more than half of their incomes toward rent. Only 10 percent of households with incomes between 31 and 50 percent of area median do so. In Ohio, more than 90 percent of the households with incomes below 30 percent of area median pay more than half of their incomes toward rent.

The National Low Income Housing Coalition proposes a new housing production and preservation program, a national housing trust fund. Such a fund exists in H.R. 1461 and would provide new off-budget resources to produce and preserve housing for extremely low-income people. This solution is desperately needed and is at hand. We must know how to—so we know how to solve our Nation's housing crisis by producing and preserving affordable housing for low-income folks. This is a tremendous network of professionals ready to take on the task. They just need the resources to do so. Thank you very kindly.

[The prepared statement of Mr. Moses follows:]

Dedicated solely to ending America's affordable housing crisis

Testimony of George Moses, Chair, Board of Directors
National Low Income Housing Coalition

House Government Reform Subcommittee on Federalism and the Census
The Honorable Michael Turner, Chair
The Honorable Wm. Lacy Clay, Ranking Member

June 20, 2006

My name is George Moses. Thank you for the opportunity to testify before the House Government Reform Subcommittee on Federalism and the Census. I am Chair of the Board of Directors of the National Low Income Housing Coalition. I reside in Pittsburgh, PA, where I am a tenant organizer, a member of the Southwestern Pennsylvania Alliance of HUD Tenants, and a member of the Board of Directors of the Housing Alliance of Pennsylvania. I was a Section 8 resident for 15 years, until last month.

I was elected Chair of the National Low Income Housing Coalition in February of this year and am the first tenant to serve in this role. The members of National Low Income Housing Coalition who I am proud to lead include public and assisted housing residents and their organizations, non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations and concerned citizens. While our members include the wide spectrum of housing interests, we do not represent any segment of the housing industry. Rather, we focus exclusively on what is in the best interests of people who receive and those who are in need of federal housing assistance. These are people with low incomes.

I am here today to share with you my perspectives on the subjects of self-sufficiency and poverty deconcentration as they relate to federally-assisted affordable housing.

On the matter of self-sufficiency, I would submit that none of us are truly self-sufficient. Everyone relies on or is advantaged in some way by public programs and policies that promote and support family and community well-being, not the least of which are the federal tax expenditures that subsidize homeowners in the United States.

If we define self-sufficiency as being able to take care of oneself and one's family, I would argue that all residents of federally-assisted HUD housing are self-sufficient because they have found a way to afford housing in a market where there simply are no other affordable alternatives. As National Low Income Housing Coalition research has shown, there is nowhere in the United

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States where you can work full time at minimum wage and afford the local fair market rent for a one bedroom apartment. The private market does not meet the housing needs of the lowest income Americans. In Pittsburg, there is a deficit of more than 15,000 units affordable and available to people with incomes below 30% of area median. Unless this reality changes, the federal government has to help bridge the gap between what housing costs and what low wage earners and people on fixed incomes can afford.

A few of HUD's programs have attempted to provide self-sufficiency opportunities to residents. One of these programs is the Moving to Work public housing demonstration program. The goals of this program are to reduce PHA costs, incentivize toward work, and education and increase housing choices for families. One of the ways public housing authorities participating in the Moving to Work demonstration have attempted to move residents toward self-sufficiency is by changing the rent structure so that rent-setting is not longer based on income. The rent policy plans within the Moving to Work demonstration housing authorities of Tulare (in Visalia, California); Keene, New Hampshire; Portage (in Ravenna, Ohio); and San Antonio allow the housing authority to waive the Brooke rule, which provides that only rents up to 30% of adjusted income are affordable. These Moving to Work rent plans would actually divorce rents from incomes, setting up the possibility that rents would not even be affordable within the nation's federal housing safety net. This is truly the "stick" approach to encouraging increased earned income.

To incentivize work, the National Low Income Housing Coalition supports the rent simplification changes proposed by H.R. 5443. These include residents not having to report increased earned income to the public housing authority until their next annual recertification and a blanket disregard of 10% of earned income. We believe that these are practical ways to encourage residents to increase earned income without forcing unaffordable rents upon extremely low income households.

We acknowledge that some public housing authorities may implement policies beneficial to extremely low income households in the Moving to Work demonstration. That certainly is not our concern. Our concern is focused on the ability public housing authorities have under Moving to Work to harm the lowest income households and/or not meet their communities' most pressing housing needs. The results of Moving to Work of the moving to work demonstration are, at best, inconclusive.

Not even a year ago, media articles appeared about how the Atlanta Housing Authority, using its "flexibilities" as a Moving to Work demonstration site, was about to evict public housing residents for failure to work at least 30 hours a week, be in a work-training program or attend school. The Atlanta Housing Authority was requiring that all non-exempt residents work or be in training for 30 hours a week, not just heads of households as allowed under statute. Under Moving to Work, the Atlanta Housing Authority also increased minimum rents to $125 a month, a staggering amount for people with extremely low incomes.

Last week, on June 6, HUD's Office of the Inspector General released a report finding that HUD did not follow statutory requirements when it admitted the Baltimore Housing Authority into the

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Moving to Work program. The OIG found that Baltimore never had a local hearing on its Moving to Work plan, never considered comments on the plan, did not submit a full plan to HUD and was not a high-performing public housing authority. Still, HUD approved Baltimore's plan. With such gross oversight problems managing a field of 32 Moving to Work sites (some of which are no longer active), we do not think there are solid arguments for the program's expansion.

For Moving to Work, including existing demonstration sites and any contemplated expansion, a number of improvements are necessary. Annual consultations with residents and community members should be required, comments should be considered, income targeting must be in line with the greatest housing needs, Federal housing affordability standards must be maintained, all policies must be in writing for and accessible to residents and members of the community, performance standards should be better aligned with the program's goals (the households most in need of assistance as identified in the Consolidated Plan should be assisted) and the program must be better established so that real evaluations can be completed.

Some propose time-limiting assistance in the housing choice voucher program as a way to spur self-sufficiency. This is an unnecessary proposal whose only impact will be to harm the people least able to afford rents in the private market. In the voucher program today, 59% of voucher holders use vouchers for less than five years. Over half (51%) of voucher holders' income is from Social Security or SSI, indicating they are retired or disabled and not expected to participate in the work force. Imposing time limits would be punitive and unnecessary.

On the issue of deconcentrating poverty, my experience has been that, even though a neighborhood's physical appearance may not look so good from the outside, there still exists a community. In my neighborhood, people would gather to talk, watch one another's children, and form strong bonds. Although it might have looked to some like not such a good neighborhood, there was good neighboring. We must be extremely careful when we interrupt this neighboring and community under the name of revitalization or deconcentration of poverty. When you tear that all that apart, people don't know their neighbors, don't know who to turn to when they need a babysitter, a quart of milk, someone to talk to.

From our perspective, it is about choice. When HOPE VI demolishes public housing under the name of deconcentration but only provides vouchers that can often only be used in other high-poverty neighborhoods, that is not choice. When officials proclaim that all who wish to can return to New Orleans but there is no plan to rebuild housing affordable to the lowest income people, that is not choice. To claim to want to deconcentrate poverty but then offer no real choice for how extremely poor people can afford to live in low-poverty areas is much more about displacement and the disappearance of the nation's federal housing safety net.

HUD's HOPE VI program brought with it promise. What too many communities have been left with, however, is a net loss of units affordable to the people whose housing was destroyed under HOPE VI. Through the HOPE VI program, as of June 30, 2005, HUD had demolished more than 76,000 public housing units, relocated 60,923 households and completed the new

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construction or rehabilitation of more than 43,000 units. This gap between 76,000 and 43,000 represents a glaring loss of affordable units. The program's emphasis on poverty deconcentration has meant that too many of the 43,000 new or rebuilt units are not affordable to many of those displaced by the demolition of 76,000 units.

With programmatic changes since 2004, the voucher program in many jurisdictions has lost or has been on the verge of losing one of its fundamental functions: portability, the ability of voucher holders to move to another public housing authority jurisdiction with their vouchers. Much of poverty deconcentration is about real choice in where to live. Today's vouchers are portable and allow households to move where they like. These are personal decisions based on complex circumstances and should not be restricted by HUD.

As long as there is a "public" affiliation between the local housing authority and Congressional appropriations, Congress must ensure that scarce housing assistance funds serve the lowest income households. In Pennsylvania, more than 87% of households with incomes below 30% of area median pay more than half of their incomes toward rent. Only 10% of households with incomes between 31 and 50% of area median do so. In Ohio, more than 90% of households with incomes below 30% of area median pay more than half of their incomes toward rent. Only 8% of households with incomes between 31 and 50% of area median do so. Assisting higher income households may be easier but doing so will not solve the nation's affordable housing needs.

Across the United States, there are hundreds of thousands of households on waiting lists for public and assisted housing. In many cities, it takes years to receive housing assistance. In the meanwhile, people experience homelessness, pay more than half (or more) of their incomes toward housing, living in substandard housing or commute vast distances between affordable housing and jobs. None of these solutions bring health, stability and hope to families. More people in the United States suffer from housing problems than lack health insurance but, still, there does not seem to be a national commitment to address the nation's housing needs.

The National Low Income Housing Coalition proposes a new housing production and preservation program, a National Housing Trust Fund. Such a fund, as it exists in H.R. 1461, would provide new, off-budget resources to produce and preserve housing for extremely low income people. This solution is desperately needed and it is at hand. We know how to solve the nation's housing crisis, by producing and preserving housing affordable to low income people. There is a tremendous network of housing professionals ready to take on the task, they just need the resources to do so.

Thank you for this opportunity to share our views with you. We appreciate the work of this Subcommittee and look forward to working with you in the future.

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Mr. TURNER. Thank you.
Mr. Riccio.

STATEMENT OF JAMES RICCIO

Mr. RICCIO. Mr. Chairman and committee members, I'm Jim Riccio of MBRC, a national nonprofit, nonpartisan policy research organization. Thank you for inviting me to testify today.

Most people would agree that public housing residents who can work should work. After all, these are some of the poorest people in some of the poorest places in the Nation, and it's hard to imagine they can escape poverty or their communities can reduce the concentration of poverty, or that public housing itself can remain viable without making work a part of the solution. Simply put, many residents need to earn more money, and most people would agree that something should be done to help them to do that.

But what should be done? Unfortunately, this is a field in which credible evidence about effective strategies is hard to come by, and policymakers usually have to guess about what would work. Today I want to tell you about one approach that we now know is effective. It's called Jobs Plus. It's the most carefully evaluated jobs initiative ever tried in public housing. It was a focus of a six-city evaluation sponsored by HUD and the Rockefeller Foundation, along with other funders. MBRC conducted the study.

The good news is that this study, which was conducted like a clinical trial using a control group, shows that Jobs Plus substantially increased residents' earnings in the mainstream labor market. It thereby helped residents advance toward self-sufficiency, which is a longstanding bipartisan public policy goal now enshrined in QHWRA. How did Jobs Plus do this? First, it attacked the problem with a three-component intervention. It offered assistance with employment and training at a job center located conveniently within the housing development. It gave working residents a break on their rent by introducing new rent rules, allowing them to keep more of their earnings, and these were rent moves that were simpler, broader and much more generous than in QHWRA. And it spread work-related information through residents' own social neighbor to neighbor networks within the development.

In addition, Jobs Plus was not a limited-slot program but reached out to all working-age residents of the development. Finally, Jobs Plus was not just a housing authority program. Instead, it was accomplished through a local partnership that involved the Welfare Development, Workforce Development Agency and work force representatives. Now let me tell you a little bit more about what the sites achieved and how big a difference they made. Three of the sites, Dayton, OH, Los Angeles, and St. Paul, fully implemented and sustained Jobs Plus over several years. From their experiences, we learned not only that it is possible to integrate a work focus into the day-to-day operation of public housing but also how to do this. In these three sites, we found Jobs Plus increased residents' average earnings above and beyond the control groups' earnings by over $1,100 per year during the 4-year followup period. This is a 14 percent improvement over the control group, which was made up of similar residents living in public housing elsewhere in the city. Also, the size of the earnings effect grew larger

over time. In the 4th year, in fact, it exceeded $1,500 per resident, which is a 20 percent improvement, and there was no sign of the effect going away by the end of the study. And, cumulatively, by the end of the study, residents who had worked were substantially better off than they would have been without Jobs Plus by about $6,000 on average. The program also had large earning effects for a wide range of residents including welfare recipients and those not on welfare, men as well as women, African-American, single mothers and legal immigrants from Mexico, Central America, Southeast Asia and many other parts of the world. By increasing residents' earnings, Jobs Plus helped deconcentrate poverty within public housing. This was especially true in tight housing markets where resident move-out rates were low. Deconcentrating poverty is another important core goal, and Jobs Plus contributed to it by helping existing tenants not by replacing them with new higher-earning residents.

Finally, it's worth noting that Jobs Plus achieved its results at fairly modest costs. The overall net government expenditure on Jobs Plus per person totaled roughly between $2,000 to $3,000 over the 4-year period, including the cost of the rent breaks. So, to sum up, the Jobs Plus results deserve special attention because they occurred in high-poverty public housing environments; the effects were substantial and sustained; they occurred for very different types of people and places; they occurred in good economic times and bad; they were achieved for modest costs; and they are based on highly credible evidence. As a result it's likely that many more public housing authorities would embrace an opportunity to implement Jobs Plus if they had the funds to do so. So the evidence of Jobs Plus's effectiveness in hand, Congress may wish to consider introducing Jobs Plus in additional public housing developments across the country. It need not try to do this everywhere, but it would serve an important public purpose to replicate Jobs Plus even on a limited basis where the need is great and where the local commitment is strong. Thank you.

[The prepared statement of Mr. Riccio follows:]

Testimony of

James A. Riccio
Director, Low-Wage Workers and Communities
MDRC

before the

Subcommittee on Federalism and the Census,
Housing Committee on Government Reform

June 20, 2006

Mr. Chairman and Committee Members, thank you for this opportunity to address you today. I am Director of the Low-Wage Workers and Communities policy area at MDRC, a national nonprofit, nonpartisan social policy research organization based in New York City. I want to share with you some compelling evidence about an employment program that we now know works to increase the earnings of public housing residents. The program is called Jobs-Plus, and it deserves special attention because it is the most carefully evaluated employment initiative ever tried in public housing. It was the focus of a six-city research project sponsored jointly by the U.S. Department of Housing and Urban Development (HUD) and the Rockefeller Foundation, along with a number of other public agencies and private foundations. MDRC conducted the study.

According to MDRC's 2005 evaluation report, *Promoting Work in Public Housing: The Effectiveness of Jobs-Plus,*[1] the program substantially boosted earnings for people in high-poverty housing developments where it was properly implemented. The study offers the first hard evidence that a work-focused intervention based in a public housing environment can effectively promote residents' self-sufficiency.

The earnings effects of the program are particularly significant for at least four reasons: (1) they occurred in high-poverty public housing environments; (2) the effects were substantial and sustained throughout the four-year follow-up period; (3) they occurred for very different types of residents in very different cities; and (4) they occurred in both good economic times and bad.

For policymakers, the findings point to a promising strategy for increasing employment opportunities and self-sufficiency among public housing residents — a longstanding bipartisan goal and one that is enshrined in the federal Quality of Housing and Work Responsibility Act (QHWRA) of 1998.

In my testimony, I would like to tell you about the origins of Jobs-Plus, how we evaluated it, what we found, and what policymakers might consider doing with the results.

Origins of Jobs-Plus

Jobs-Plus was conceived about 10 years ago, in the mid-1990s. It was widely recognized then that problems plaguing inner-city communities were especially acute in many of the nation's public housing developments, which themselves ranked among the most economically deprived neighborhoods in the country, with high rates of joblessness, underemployment, and poverty. In fact, at the time, over half of the nation's 1.2 million units of public housing were located in high-poverty census tracts. Moreover, in some cities, public housing residents were among the hardest people to employ among welfare recipients and other low-income groups. Many residents had poor education and job skills, meager work-relevant credentials, or faced an array of personal problems or circumstances that made it difficult for them to work, or to work steadily.

[1]Howard S. Bloom, James A. Riccio, and Nandita Verma. 2005. *Promoting Work in Public Housing: The Effectiveness of Jobs-Plus.* New York: MDRC.

These problems had to be addressed. But how could they be addressed *effectively*? At the time, there was little solid evidence of what might work. Nonetheless, policymakers attempted a range of remedies, which included changing the income mix of populations of public housing developments, moving people out of impoverished developments into low-poverty communities, offering incentives to residents to work, or some combination of these strategies:

- *Replacing public housing with mixed-income housing.* The most far-reaching version of this poverty deconcentration strategy involved tearing down old public housing developments and replacing them with developments that included market-rate and homeownership units alongside subsidized units (as in HOPE VI projects).

- *Recruiting more working families to live in public housing.* Loosening tenant selection rules and preferences, which the QHWRA legislation permitted, was seen as a way to make it easier for working families with higher incomes to move into public housing, thereby diluting the concentration of poor, non-working families in the developments.

- *Relocating and dispersing residents.* This approach involved giving residents Section 8 rental vouchers, which would allow them to move to better neighborhoods and closer to jobs. HUD's Moving to Opportunity demonstration tested a version of this idea by offering public housing residents special rent vouchers that could be redeemed only in very low-poverty communities.

- *Providing employment services to existing residents.* Over the years, HUD has funded a number of self-sufficiency initiatives to help residents living in public housing. Programs like HUD's Step-Up program or Family Self-Sufficiency program are examples of this (although the latter is more commonly targeted toward Section 8 recipients.)

- *Reforming rent rules to encourage residents to work more and to strive for higher earnings.* Under traditional HUD rules, residents pay 30 percent of their adjusted income in rent. According to many housing experts, this policy creates a tax on new earnings that can discourage work. Why should residents try hard to earn more when it will make their rent go up? Congress took some steps to address this problem by including modest rent reforms in the 1998 QHWRA housing legislation, hoping to encourage work. Work-based rent incentives are also a feature of the Family Self-Sufficiency program.

While there was not much research evidence on public housing programs in the mid-1990s to guide policymakers, careful new evaluations of welfare reform — many using random assignment designs, such as those used for drug trials to test the effectiveness and safety of new medicines — were showing that welfare-to-work programs that emphasized services, participation mandates, and, in some cases, "making work pay" through various forms of earnings supplements were having positive effects on welfare recipients' employment and earnings. In addition, some evidence suggested that welfare recipients living in public housing

or receiving Section 8 rent subsidies were more positively affected by these types of programs than were other welfare recipients.

In general, though, policymakers who cared about helping public housing residents succeed in work had little to go on. Would housing-based service-focused approaches work? Would rent reform work? No one really knew. Such innovations certainly *seemed* sensible, but there was little credible evidence of their effectiveness. The Jobs-Plus demonstration sought to get some answers to these questions.

What Was Different About Jobs-Plus?

Jobs-Plus was not the first employment intervention attempted in public housing, but its scale and scope were unprecedented. And although not all parts of Jobs-Plus were unique, the overall package had never been tried before:

- Assistance with **employment and training services**, conveniently provided *on-site* at a job center located within the housing development.

- **New rent rules** that helped make low-wage work pay by allowing working residents to keep more of their earnings. (This usually took the form of a flat rent, with an income-based rent retained as a safety net option for those who lost jobs and would have difficulty affording the flat rent.)

- A **community support for work** component that involved residents in *neighbor-to-neighbor* information-sharing about work opportunities, rent incentives, and other program benefits.

Jobs-Plus was not a limited-slot program; it targeted *all* working-age, non-disabled residents of the housing development. It attempted to *saturate* the social environment within public housing with work-focused encouragement, information, incentives, and active assistance.

It is important to emphasize that Jobs-Plus was not just a housing authority program. After all, housing authorities were not experts in delivering employment services, nor did they have direct access to the mainline funding streams for such services, which instead were funneled through the welfare-to-work system, or through Workforce Investment Act (WIA) agencies. Therefore, Jobs-Plus was to be accomplished in each city through a local interagency partnership that involved the welfare department and the workforce development agency, along with the housing authority, which provided overall leadership. These partnerships also included resident representatives, whose voice and support were considered essential for such a significant intervention into their communities. Other private social service and employment agencies also participated.

It was clear, of course, why housing authorities would be interested in Jobs-Plus. But, given that the program was focused on public housing residents, why would the welfare and workforce agencies want to become involved? What was in it for them? The simple answer is that, since both the welfare and workforce systems serve significant numbers of public housing residents,

working together with the housing authority should appeal to their own institutional interests. Moreover, when the demonstration was launched, around the time that national welfare reform was enacted in 1996, both systems were under growing pressure to better serve difficult-to-employ, low-income people, many of whom lived in public housing.

The Jobs-Plus Evaluation: A Careful Assessment

Jobs-Plus was subjected to the most in-depth and careful evaluation of any employment program in public housing. MDRC's research tracked more than 5,000 people over six years in Baltimore, Chattanooga, Dayton, Los Angeles, St. Paul, and Seattle. The study compared the results for residents living in developments selected for Jobs-Plus with those of residents living in similar developments that did not participate in the program. Within each city, the selection of the Jobs-Plus and comparison developments was done randomly. In other words, several developments that had residents with very similar demographic profiles were placed into a pool. MDRC then randomly chose one development for Jobs-Plus and allocated another one or two to the comparison group. We were subsequently able to confirm that we were comparing "like" people to "like" people, giving us considerable assurance that we could confidently attribute subsequent differences in employment outcomes — if there were any — to Jobs-Plus.

What Difference Did Jobs-Plus Make?

MDRC's evaluation showed that a work-focused intervention could be successfully implemented in public housing. Where it was well-implemented, Jobs-Plus had substantial positive effects on earnings for quite varied groups. The study's major findings are as follows:

With strong housing authority commitment and willing partners, Jobs-Plus brought a pervasive work focus to life in public housing.

- Four of the six sites (Dayton, Los Angeles, St. Paul, and Seattle) were able to build coherent programs of reasonable quality. They offered the "full package" of Jobs-Plus employment services, rent-based work incentives, and community support for work.

- Although the program was voluntary, a large majority (about three-quarters) of the targeted residents in these four sites made use of its services, rent-based work incentives, or both. In addition, Jobs-Plus reached and counseled many other residents through informal encounters within the housing development, such as when they walked through the courtyard, at community events, or at other activities. In general, these sites infused the developments with work-focused messages.

- All of these sites benefited from unwavering support from senior housing authority officials.

- All of these sites also secured substantial involvement and resources (often in kind) from the local welfare and workforce agencies, as well as substantial participation by

resident leaders. Although often difficult to manage, these partnerships endured for the life of the demonstration.

- In one of the four well-implemented sites (Seattle), Jobs-Plus operations were significantly disrupted after the housing development began the process of relocating residents in preparation for its demolition and rebuilding under a HOPE VI grant. Thus, Jobs-Plus was not sustained here with its previous intensity.

- Two sites (Baltimore and Chattanooga) had difficulty implementing Jobs-Plus, in part because of shifting priorities at the housing authorities and other local factors after the program was launched. Administrative problems led to much lower use of the Jobs-Plus rent incentives in these two sites than elsewhere.

Where properly implemented, Jobs-Plus produced substantial and enduring increases in residents' earnings, even after many of the residents left public housing (and were, therefore, no longer in the program).

The study examined the earnings trends among residents who were living in the Jobs-Plus and comparison developments in 1998. It followed them for several years, even after many had moved out of public housing.

- In the three study sites that fully implemented and sustained the Jobs-Plus program (Dayton, Los Angeles, and St. Paul), Jobs-Plus markedly increased the earnings of residents relative to the comparison group. These earnings gains averaged $1,141 per year (a 14 percent improvement) over the study's four-year follow-up period. (See Figure 1 and Table 1 at the end of this document for more details.)

- The size of the earnings gains *grew larger over time*, reaching $1,543 (a 20 percent improvement) in the final year, with no sign of abating.

- Cumulatively over the four years, the earnings gains totaled almost $4,600 per resident (averaged overall for all residents, including non-workers), and nearly $6,000 per *working* resident.

- As a result of Jobs-Plus, some residents who were not working began to work, and many residents who were *already* working began to work more consistently, for more hours, or at better-paying jobs than they would have without the program.

- Jobs-Plus also produced earnings gains of 11 percent in a fourth site (Seattle) within the first follow-up year, but this impact dissipated when the Jobs-Plus housing development began its HOPE VI relocation process.

- Jobs-Plus had no earnings effects in the two sites (Baltimore and Chattanooga) where the program was not fully implemented. The poorer experience of these sites points to the importance of properly implementing the full Jobs-Plus model, including the rent-based work incentives.

- Following national trends, welfare receipt dropped substantially for residents both in the Jobs-Plus and comparison developments (Jobs-Plus had no independent effect on welfare receipt).

Impressively, Jobs-Plus's large positive earnings effects held for a wide range of residents, including men, African-American single mothers, and legal immigrants from many different parts of the world.

- Jobs-Plus increased the average four-year total earnings of Latin American men in Los Angeles by $12,994 (or 28 percent) and of Southeast Asian men in St. Paul by $8,517 (or 21 percent). For African-American women in Dayton, Jobs-Plus increased four-year total earnings by $4,576 (or 16 percent). (See Table 2.)

- Jobs-Plus also produced positive impacts for residents on welfare at the start of the program, as well as for people not on welfare; for residents with more prior employment and those who had worked less; and for both longer-term and shorter-term residents of the developments.

The rent breaks offered by Jobs-Plus encouraged residents to participate in the program and helped them increase their work efforts and earnings.

- The program's rent-based work incentives held great appeal for residents. And, in fact, only those sites that achieved high take-up rates of the rent breaks produced positive earnings effects.

- Although the rent incentives were key, there is evidence to suggest that the other parts of the Jobs-Plus "package" (e.g., its services and community support for work components) also contributed to the program's success.

Jobs-Plus costs were modest.

- Although the evaluation did not include a full benefit-cost analysis, the overall government expenditure per person on Jobs-Plus for the 1998 research sample — the amount above the likely "normal" level of government expenditures made to encourage self-sufficiency in the comparison developments — totaled roughly between $2,000-$3,000 over four years. This includes the costs of the Jobs-Plus rent incentives. These estimates compare favorably with the per-resident boost in earnings seen in the well-implemented sites (especially considering that the gain in earnings had not diminished by the end of the follow-up period).

Jobs-Plus, when well-implemented, can contribute to the goals of deconcentrating poverty within public housing, especially where resident move-out rates are low.

- Jobs-Plus residents tended to stay in public housing longer in communities with tighter housing markets (e.g., Los Angeles and St. Paul). Thus, the program's

earnings impacts in these cities helped raise the overall levels of earnings and income among the population of residents living in the development at any given time.

- Where private rental housing was much more affordable (e.g., Dayton), Jobs-Plus residents were quicker to move out than they were in other cities. While this meant that the program's earnings effects were less likely to increase the average year-by-year earnings levels for the development as a whole, it did free up subsidized units more quickly, allowing other poor people to move in and benefit from Jobs-Plus.

Jobs-Plus's positive earnings impacts contrast with the absence of known effects on self-sufficiency from resident relocation programs, such as Moving to Opportunity.

- The effectiveness of Jobs-Plus stands in marked contrast to the absence of labor market effects (at least in the short term) from the alternative approach of relocating public housing residents into private housing in better neighborhoods. As previously mentioned, HUD's Moving to Opportunity (MTO) demonstration tested this idea by offering residents special vouchers to subsidize private housing rents in low-poverty neighborhoods. The interim results from the random assignment test of this approach have shown *no* effects on residents' employment or earnings within the first four years of follow-up. While MTO had other effects, the hoped-for improvements in self-sufficiency outcomes are, so far, not among them.

What are the Implications for Public Policy?

Jobs-Plus offers one way to accomplish a longstanding, bipartisan public policy goal — promoting work among residents of public housing. Moreover, its positive earnings effects show that this initiative can help achieve the self-sufficiency objectives espoused by QHWRA, the 1998 federal housing reform law.

Jobs-Plus shows, through a real-world test, how a strong work focus can be effectively attached to residency in public housing, even on a voluntary basis.

- The Jobs-Plus research has yielded a bounty of practical lessons and good-practice insights for operating a more streamlined collaboration process, better accountability for program performance, and improved service delivery, all of which could be applied in a replication of the program.

- MDRC's report underscores that success requires the commitment of housing officials to an employment mission for public housing, as well as the active partnership of the welfare and workforce systems and resident leaders.

If the Jobs-Plus strategies were implemented widely and well, they could help thousands of people in very poor public housing communities advance on the road to self-sufficiency.

- The program's effectiveness across very different types of people and places suggests that Jobs-Plus can "travel well" and help achieve positive work outcomes on a substantial scale if operated in many more communities across the country.

- The Jobs-Plus mission and approach have considerable appeal at the local level. Indeed, many public housing authorities across the country have been inquiring about the findings and lessons from Jobs-Plus. They view the program as one that would address a persistent problem in their communities, and it is likely that they would embrace it quickly if they had the funds to do so.

- MDRC's report suggests that, at a minimum, in the absence of a fuller replication of Jobs-Plus, the more modest rent incentives that currently exist under the 1998 federal housing law should be fully implemented and aggressively marketed to residents, and perhaps simplified and expanded.

In sum, Jobs-Plus speaks to a wide range of critically important issues, including the feasibility and effectiveness of self-sufficiency as a mission of public housing, the valuable role that rent-based work incentives can play, and strategies for achieving real collaboration between public housing authorities and the welfare and workforce systems. With the evidence of Jobs-Plus's effectiveness in hand, and in the face of a continuing need to do more to increase work and earnings of residents of some of the nation's poorest communities, Congress may wish to consider introducing Jobs-Plus in additional public housing developments across the country.

Figure 1

Jobs-Plus's Effects on Earnings:
Pooled Average Quarterly Earnings for Program and Comparison Group Residents
(Stronger Implementation Sites—Dayton, Los Angeles, and St. Paul—Combined; 1998 Cohort)

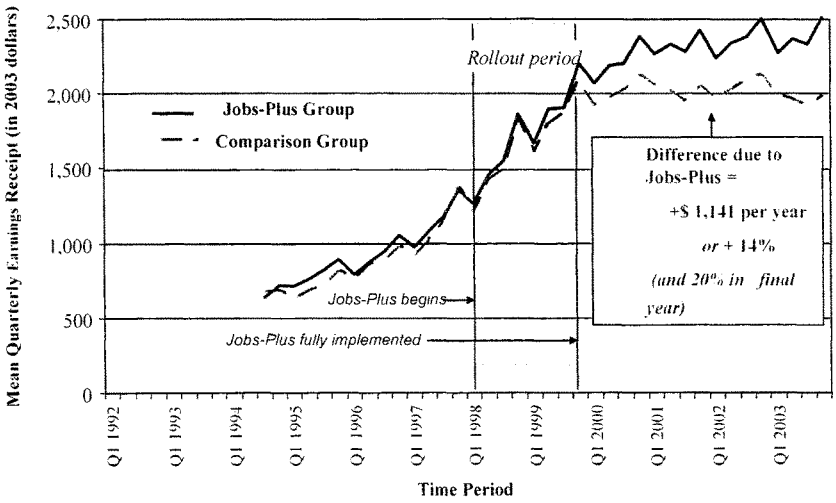

Table 1

Average Annual Earnings of All Working-Age, Non-Disabled Residents of the Jobs-Plus and Comparison Developments *(1998 Cohort)*

	Average Earnings *Per Year* (2000-2003)			
	Average *with* Jobs-Plus	**Average *without* Jobs-Plus**	**Jobs-Plus Impact *("Added value")***	**% Change due to Jobs-Plus**
All Sites	$8,546	$8,048	$ +498	+6%
Stronger Sites *(Dayton, Los Angeles, St. Paul)*	9,228	8,087	+1,141	+14%
Stronger sites— FINAL YEAR	**9,443**	**7,900**	**+1,543**	**+20%**

Note: All impacts are statistically significant.

Table 2

Average Annual Effects of Jobs-Plus on Earnings, by Subgroup

(Stronger Implementation Sites Combined; 1998 Cohort)

Subgroup *(Status in 1998)*	**Per Year Impact (2000-2003)**	
	$	**% Change**
Stronger Implementation Sites:		
Non-TANF Group	1,654	18%
TANF Group	761	11%
Had lived in development less than 4 years	650	8%
Had lived in development more than 4 years	1,818	21%
Had been employed less than 3 of past 8 quarters	1,427	38%
Had been employed at least 3 of past 8 quarters	882	7%
Dayton Only:		
Black women (non-Hispanic)	1,144	16%
Los Angeles Only: **Hispanic men**	3,248	28%
Hispanic women	649	10%
St. Paul Only: **S.E. Asian men**	2,129	21%
S.E. Asian women	1,798	23%

Note: All impacts except those for Hispanic women are statistically significant.

Mr. TURNER. Thank you.
Mr. Roberts.

STATEMENT OF BENSON F. "BUZZ" ROBERTS

Mr. ROBERTS. Thank you, and good morning. I'm Buzz Roberts. I work at LISC, the Local Initiative Support Corp. One brief word about LISC, our job is to raise capital mostly from the private sector and to provide it to nonprofit community organizations that are rebuilding urban neighborhoods and isolated rural areas, and we do that all over the country through 33 local offices and a national rural development program. Over our 26 years, we've raised about $7 billion and put that on the street in low-income communities, and that includes almost $1 billion last year alone.

Today, Judy Kennedy and I are going to cover some of the same territory. So in order to make this as efficient as possible, I'm going to talk a little bit about how Federal policies come together on the ground, and Judy's going to talk a little bit about some specific policy recommendations that flow from all that. Over the last 20 years, we have seen the emergence of a new production system for affordable housing and a wider range of community development activities at the local level, and this system has been flexible and decentralized and well integrated. And it is distinctive because it is market-driven; it is locally controlled; and it is performance-based. So there are a lot of checks and balances on the system that make it work. And what it does very effectively is it combines a variety of public policies. In fact, a cluster of policies has really enabled this system to emerge and to be sustainable over time with private sector investment, and private sector investment is crucial to this whole system. Now, part of that is that there are limited Federal resources, so in order to stretch them as far as possible, it's great to bring in private capital. That's fine. But there are other important reasons as well. Private capital brings a discipline to the system that you just can't get with public funds alone. And for those of us who care about not just providing housing per se but also rebuilding communities, access to that private capital is fundamental to healthy communities well beyond the reach of a particular deal or a particular loan, and a system that works encourages the private sector to do more and more in these communities. So we can really reverse the vicious cycle of disinvestment and turn it into a virtuous cycle of reinvestment, and we're seeing that happen in some of the toughest communities around the country, urban and rural.

So how does it work? I'd like to sort of walk you through a little table on page 3 of my testimony. It looks like this. It's somewhat simplified but not too awfully simplified because it shows you how financing comes together. One piece is equity investment. That's what owners invest. In a typical affordable housing production deal, that's going to come from low-income housing tax credits. In a more traditional private sector model, equity investors are going to look for cash-flow and capital appreciation. Affordable low-income housing isn't going to provide either of those things. So instead, the Low-Income Housing Tax Credit does that, and it is performance-based, and so there are a lot of incentives from equity in-

vestors to plan and build and operate these properties very, very tightly.

Second is a first mortgage. This is obviously a traditional source. Banks traditionally originate these loans. And the third is gap financing. And that's pretty much as it sounds. When you look at how much a bank can lend and how much investors can invest, there's often a gap in order to make the deal really work, and that's where gap financing comes into play.

Now, what about this system? What about the Federal policies? Pretty simple. Equity investment comes from housing credits, as I said. States allocate those credits according to a very competitive allocation plan, and oftentimes, banks make those investments. And guess what, CRA is an important reason they do.

Additionally, Fannie Mae and Freddie Mac are also major investments based on housing credits. On first mortgages, again, CRA makes a big difference here. It encourages banks to make those loans. Those loans are often profitable and safe, but they're what we call high-touch loans. They're not easy to do. They take time and effort. And if you're just trying to maximize your profit, you might want to find a bigger easier deal to do. And the Fannie Mae, Freddie Mac affordable housing goals encourage Fannie and Freddie to buy those loans on the secondary market. So it's a very important part of the policy puzzle.

And, finally, the gap financing typically comes from home and CDBG and a variety of other Federal sources. HOPE VI often plays this role in the redevelopment of public housing. So you put that together, and you've got yourself a deal.

[The prepared statement of Mr. Roberts follows:]

Testimony of

Benson F. Roberts

Senior Vice President for Policy and Program Development

Local Initiatives Support Corporation

Subcommittee on Federalism and the Census

House Committee on Government Reform

U.S. House of Representatives

June 20, 2006

June 20, 2006

Testimony of Benson F. Roberts

Good morning, Mr. Chairman and members of the Subcommittee. My name is Benson Roberts. I am Senior Vice President for Policy and Program Development at Local Initiatives Support Corporation.

About LISC

LISC is a national, nonprofit organization that raises capital and provides investments, loans, grants, and organizational support to local nonprofit community development corporations. CDCs are rebuilding many of America's most distressed and isolated urban neighborhoods and rural areas.

Since 1980, LISC has raised and invested $7.1 billion, including $938 million in 2005, predominately from the private sector. LISC has financed a wide range of activities, including the production of almost 200,000 homes, as well as charter schools, economic development, childcare, football fields, recycling vacant properties, supermarkets and public safety. Our Housing Authority Resource Center helps public housing authorities access private capital to rehabilitate and build affordable housing.

LISC operates through 33 local offices serving a city, region or state, as well a nationwide rural program. LISC combines this on-the-ground presence with national expertise in various issues and an ability to tap financial markets. Our work with Living Cities – a consortium of national financial services companies, foundations, and HUD – is an excellent example of this multi-sector, national/local partnership. LISC has had extensive experience in working with government at all levels to make public policies work in a wide range of local settings.

The Community Development Finance System and Federal Policies

Federal policies contribute in important ways to virtually all affordable housing and community development projects. Over the past 20 years, a cluster of federal policies has supported a flexible, decentralized, and well integrated production system. This system is distinctively market-driven, locally controlled, and performance-based. It builds sustainable partnerships among nonprofit and for-profit developers, private lenders and investors, and government at all levels. These institutional partnerships, locally and nationally, may be the most important legacy of these federal policies.

Attracting private capital is the key to the system. One reason is that public government grants are scarce and must be stretched as far as possible. Equally

important, though, private financing provides market discipline, ensuring that projects are properly planned, underwritten and operated. Successful projects breed further private investment for subsequent activities, replacing the vicious cycle of disinvestment with a virtuous cycle of reinvestment.

The economics of affordable housing and community development determine what private sources can finance. Most affordable housing and community development requires three basic financing elements: a private mortgage loan, equity investment, and public funds. The role of federal policies is to maximize private financing and fill the financing gap.

Private mortgage loans have two general constraints. (1) The loan amount cannot exceed about 80% of a property's appraised value for rental housing or economic development, since a lien on the property serves as collateral for the mortgage.[1] Market values are limited in low-income communities and for housing reserved for low-income residents. (2) Project cash flows (rents minus maintenance, taxes, and other operating expenses) must exceed mortgage payments by about 15%, to cushion against shortfalls. Low-income rental housing and most community economic development projects generate limited rents, so private mortgage amounts are limited too. The *Community Reinvestment Act* has provides crucial encouragement for banks to make mortgage loans consistent with safety and soundness. *Affordable housing goals* encourage Fannie Mae and Freddie Mac to purchase the private mortgages. In addition, *tax-exempt revenue bonds* can reduce the interest rate on a loan, so that a given level of cash flow can carry a larger loan.

Equity investments offer an ownership stake in projects. Equity investors take the greater risks and require higher rates of return than lenders. Traditional equity investors seek cash flow and capital appreciation. However, affordable rental housing and community development deals cannot produce much of either. However, equity investors also respond to well-structured tax incentives. *Low Income Housing Tax Credits, New Markets Tax Credits* for economic development, and *historic rehabilitation tax credits* have proven to be highly effective. The *Community Reinvestment Act* plays a crucial role in attracting equity investments from banks, and Fannie Mae and Freddie Mac are also important Housing Credit investors. Equity investments are usually structured to allow local sponsors to control day-to-day operations.

Gap financing, as the term suggests, makes up the difference between a project's total development cost and the amount that private lenders and investors can reasonably finance. Gap financing is usually structured as a second mortgage with little or no current interest payments required, so it is not available in the private market. Federal subsidies like *Community Development Block Grants, HOME, and HOPE VI*, or state and local subsidies where available, are essential to most development projects.

[1] Mortgage loans to home buyers can approach the home's full market value.

The following table shows how these three kinds of funds and various federal policies come together in a typical rental housing development costing $150,000 to build. Actual costs vary with local market conditions and specific projects.

Financing Type	Federal Policy	Decision-maker	Amount/unit
Equity investment	Low Income Housing Tax Credits CRA (Investment Test)	State agencies allocate credits Banks make investments	$90,000
First mortgage	CRA (Lending Test) Fannie Mae/Freddie Mac (GSE) affordable housing goals	Bank originates loan Fannie Mae/Freddie Mac purchase the mortgage	35,000
Gap financing: 2nd mortgage	HOME, CDBG Alternate: HOPE VI	States and localities HUD and local PHAs	25,000
Total cost of development			$150,000

In addition to helping to finance the actual development of projects, public policies play two other important roles in the process.

Rental/operating subsidies. For rental housing it is important to recognize that extremely low-income households generally cannot afford rents sufficient to cover even the basic costs of maintaining a property in good condition. Reaching these households requires some kind of ongoing rental subsidy or a project operating subsidy, such as those provided through *Section 8 Housing Choice Vouchers, public housing operating subsidies, Section 202 (elderly), Section 811 (disabled), or McKinney-Vento (homeless) programs.*

Building nonprofit capacity. According an Urban Institute evaluation, nonprofit community development corporations (CDCs) "in many cities are now the most productive developers of affordable housing, outstripping private developers and public housing agencies,"[2] and they play leading roles in a wide range of other revitalization activities as well. These nonprofits are mission-driven to address public priorities, often taking on the toughest projects, serving a diverse population that includes the poor, and leading the recovery of urban neighborhoods and rural areas that others avoid. Moreover, CDCs are vehicles through which residents become more self-sufficient and take responsibility for their communities' futures. But nonprofits need seed capital to pursue new projects and activities and to grow strong organizationally. *The Section 4 community capacity building program, Community Development Financial*

[2] Christopher Walker and Mark Weinheimer, *Community Development in the 1990s*, Washington, DC: The Urban Institute, September 1998, page 1.

Institutions Fund, and CHDO[3] *technical assistance element of HOME* provide important resources. LISC and Enterprise administer most of the Section 4 funds, in partnership with HUD.

The Role of Community Reinvestment Policies

Federal community reinvestment policies play a fundamental role in housing and economic development. The *Community Reinvestment Act* is the linchpin, but the *Home Mortgage Disclosure Act, Government Sponsored Enterprises (GSE) affordable housing goals, public welfare investment authority* for banks, and even the *international Basel II international bank capital accord* all make important contributions.

Community Reinvestment Act (CRA). CRA requires all federally insured banks and thrift institutions (savings and loans) to help meet the credit needs of their entire communities, including low-income areas. CRA was enacted in 1977 to combat "redlining", or the refusal to lend in low-income or minority neighborhoods. CRA became especially effective in the early and mid-1990s.

CRA has been remarkably successful. Banks are more willing to operate in low-income communities if they know other banks will operate there as well. CRA has helped to expand access to credit substantially in most low-income communities, helping banks to discover new markets where they providing loans, investments and services consistent with safety and soundness. For example, the foreclosure rate on *Low Income Housing Tax Credit* properties is only 0.02% annually, far lower than on other real estate investments. Community reinvestment is also profitable for banks, though not quite as profitable as other activities. One reason is that low-income housing and community development financings tend to be relatively small, but they also require more time and expertise to structure properly and coordinate with other private and public partners.

CRA also encourages banks to undertake innovative activities, as well as to enter into public-private partnerships. *Low Income Housing Tax Credits* were a breakthrough, starting in the late 1980s; *New Markets Tax Credits* are a more recent example. In such cases, CRA encourages banks to pioneer and then refine implementation of bold federal policies.

Four federal regulators are responsible for monitoring the CRA performance of federally insured financial institutions: the Office of the Comptroller of the Currency for national banks; the Federal Reserve Board for state chartered banks that are members of the Federal Reserve system, as well as bank holding companies; the Federal Deposit Insurance Corporation for other state chartered banks; and the Office of Thrift Supervision for thrift institutions. An institution with poor CRA record may be denied approval for merging with another institution, and can suffer reputational damage.

[3] Community Housing Development Organizations

Until 2004, the four regulators collaborated on writing uniform CRA regulations. This has ensured consistency, a level playing field for all institutions of similar size, clarity, and transparency. In 2004, the OTS unilaterally announced a policy that effectively eliminated investment and financial service[4] requirements for all thrifts, leaving only lending obligations in place. Remarkably, OTS finalized this policy even though it had never formally proposed such a fundamental change, and ignored 4,000 comments opposing even the general concept with only 200 supportive comments. We urge the OTS to reverse this policy and rejoin its fellow regulators with a uniform and responsible policy.

The direct effects of this OTS policy are bad, but the indirect effects are potentially more far reaching. For the first time, different rules apply to different kinds of federally insured financial institutions. This creates an un-level playing field, and sows uncertainty and instability in the system. Some institutions may be tempted to favor a thrift charter to get more lenient CRA treatment. Pressure could build to allow commercial banks the same chance to avoid responsibility for investments and services. This unraveling would weaken the investment market for community development activities. If, for example, there were less interest among investors in Low Income Housing Tax Credits, rates of return would rise and each dollar of tax credit would generate less money for housing. The federal government would be hard pressed to increase funding for *HOME* or *CDBG* to make up the difference. The bottom line would be less housing and community revitalization.

Home Mortgage Disclosure Act (HMDA). Enacted in 1975, HMDA now requires the public disclosure of where each lender makes home mortgages, the racial, income and gender characteristics of borrowers, and most recently, whether loans carry especially high interest rates. HMDA has consistently injected hard data into the sometimes heated debate about fair access to credit. New data on the cost of borrowing is now informing an important examination of whether minority, low-income, and inner-city or rural borrowers are paying substantially higher interest rates than others.

GSE Affordable Housing Goals. In 1992 Congress enacted legislation requiring Fannie Mae and Freddie Mac to purchase more loans made for low- and moderate-income people and communities. These goals have challenged Fannie and Freddie to focus on these markets. However, their targets are broader than those for banks under CRA. As a result, the banks and thrifts that originate loans and the GSEs that purchase loans in the secondary market are not always well aligned. The GSE reform bill approved by the House would correct this problem by targeting the *affordable housing goals* to virtually the same people and places that CRA targets. LISC supports this provision of the House bill.

[4] Access to convenient branches and no-frills checking accounts are examples of such services.

Public welfare investment authority. Since 1995, CRA regulations have required banks to make investments, but it is broader banking laws that govern exactly what activities banks can undertake. In 1992, Congress codified the authority of banks (and by extension, certain affiliates of thrifts) to "make investments primarily designed to promote the public welfare", such as those benefiting low-income people and communities.[5] The 1992 law has permitted bank investments in aggregate amounts up to 10% of their capital. In the last 14 years, public welfare investments have increased dramatically, principally based on *Low Income Housing Tax Credits*, which as noted above have an exceptionally low failure rate, and now *New Markets Tax Credits.* Together, these tax credits are generating about $10 billion in investments each year, with holding typical holding periods of 15 years for housing and at least seven years for New Markets. Some banks are already reaching the 10% ceiling, and more are likely to do so in the next few years. Even approaching the 10% ceiling could cause banks to ration their investment activity. Here again, a reduction in the supply of investment capital would reduce the amount of funds for housing and economic development, widening financing gaps that the federal government would be hard pressed to close by expanding spending programs like *HOME* and *CDBG.*

The banking deregulation bill approved by the House would raise the ceiling on *public welfare investment authority* for national banks to 15%. However, the Senate bill does not include a similar provision. LISC urges the House-Senate conferees to accept the House provision and extend it to all federally insured depository institutions, including state chartered banks as well as thrifts.

Basel II international banking capital accord. In an example of how the global financial system affects the revitalization of low-income communities, the Basel II accord will determine how much capital banks must hold against loans and investments they make. Requiring banks to hold more or less capital affects their willingness to provide different kinds of financing. In general, U.S. banking regulators would require a bank with total equity investments exceeding 10% of its capital to retain a very high level of reserves. We urge that regulators disregard public welfare investments – primarily low-risk investments based on *Low Income Housing Tax Credits* and *New Markets Tax Credits* – when calculating whether a bank triggers this 10% "materiality" threshold. Failure to grant this exception would undermine related policies under *CRA* and *public welfare investment authority.*

Conclusion

Rebuilding low-income urban and rural communities is hard work under the best of circumstances. The good news is that a sophisticated network of local and national partners has become highly effective over the last 20 years. Practitioners must be able to trust the federal government as a reliable partner.

[5] Before 1992, banks were permitted to make small public welfare investments under administrative authority.

Indeed, numerous federal policies are integral to fostering these partnerships. Because various committees – Financial Services, Ways and Means, Appropriations – have responsibility for specific policies – it is sometimes difficult for Congress to appreciate how they intertwine.

Although there have been several policy crises over the last several years, the basic system has survived mostly intact, and in some cases become stronger. LISC is grateful to the Subcommittee for reviewing how these policies interact.

This concludes my testimony. I would be happy to address any questions you may have.

Mr. TURNER. Thank you, Mr. Roberts.
Ms. Kennedy.

STATEMENT OF JUDY KENNEDY

Ms. KENNEDY. Well, first let me compliment the committee on the hearing. It's the first of its kind in either chamber that I'm aware of. The devil's in the details of a lot of things, but certainly the description Buzz just gave, brings home to you there are a lot of details and a lot of devils in community reinvestment. Our group represents 50 of the largest banks and 50 of the blue chip nonprofit lenders that many of you know of because they're in your home State.

The concept was actually established by David Rockefeller before community reinvestment. He's still alive. He's 91. I haven't given up hope that somebody's going to lure him to Washington for a hearing. His premise was that if banks couldn't get involved in very low-income housing on their own, they could pool their money, they could pool their risks, they could hire the right skill sets for originating, underwriting and servicing loans affordable to very low income, I mean under 50 percent of area median income. Our nonprofit lenders by and large as the San Francisco Fed has documented are providing affordable housing to families under 60 percent of area median income to the degree of about 90 percent. It's Self Help in North Carolina. It's Ohio Capital Corp. and the National Affordable Housing Trust in Ohio. And so this is the new face of affordable housing. It's beautiful. It's very different from what you'd think of or the public thinks of in terms of programs.

I heard former Fed Chairman Paul Volcker speak and the difference it's made in the last 30 years as taking the rough edges off of capitalism. And in a sense, that's true, but as much as anything, it's been an exciting motivation to go into emerging markets. Without which I think our cities would look very different.

All you have to do to understand CRA is drive up 14th Street. You get a sense of a neighborhood that over 20 years has been totally revived by infusion of private capital. So every study that's looked at this has confirmed that it's an enormous success. Total data's hard to come by, but focus on some of these numbers: $16 billion invested in low-income housing over about a 10-year period by just national banks. Take a look at the Federal Reserve's report from 2000, that banks have put about $1 trillion into low-income lending over a 6-year period. Take a Treasury study in 2001 that said increased home purchase loans to low-income, under 50 percent of area median income, up 94 percent in 5 years. The numbers are extraordinary even though they're not totaled. Clearly, this works. Clearly, banks know that it works and are excited about the business. I've got to bring home though that there are some things that we need to increase the flow of private capital to low-income neighborhoods.

Buzz spoke about Fannie and Freddie buying the loans. Unfortunately, the loans that they buy are not the same loans that banks are required to originate. Fannie's affordable housing goals are very different from banks, and it's allowed them frankly to double count, triple count the House would fix this. Mr. Oxley and Ney's bill would reform the GSE bills so they would finally have to pro-

vide a secondary market for loans affordable to low-income families.

On the Senate side, Senator Santorum, Sarbanes and Reid are in agreement so I hope this would happen soon. We do have some CRA rule problems. I think we had a problem a couple years ago when some of our bank regulators didn't understand the enormous impact of CRA on home building. Take, for example, that the Low-Income Housing Tax Credit is involved in 40 percent of all rental housing starts in our country and 98 percent of all new rental affordable to low income. Once the bank regulators understood the impact of gutting the Community Reinvestment Act, three of them stopped, reconsidered and did the right thing, and I give great credit to the OCC, the FDIC and the Federal Reserve for coming out with a rule for what they call intermediate small banks, banks between $250 million and $1 billion. It's an improvement over current regulations. Unfortunately, the Office of Thrift Supervision without real public consultation or notice totally gutted Community Reinvestment Act regulations, and that has not been fixed despite the fact that there's a new OTS director for almost the past year. So we need to bring all of the rules into alignment, and we need to do the right thing. And it would also be sensible to allow big banks credit for community development lending. Ironically, this lending on affordable multifamilies doesn't get any CRA credit now for banks over $1 billion. It maybe gets a little icing on the cake, but it's not a layer on the cake. That should be fixed.

Finally, what we've learned the hard way is it's hard to do anything for public housing with the micromanagement that, frankly, the pulling out the rug from underneath the Section 8 and the block grant funding and public housing funding now. You know, when banks are investing for CRA, they're investing your savings and mine. They have to be prudent about maybe taking a little less return on the loan, but they do need to have a return to the principle. And until 2 years ago, if a borrower came in and said, I'm going to take all the Section 8 vouchers that are presented to me in Columbus, anybody that comes with a voucher, I will be tickled to rent to, that would get a little increase in the mortgage amount because you knew you could count on Section 8 funding. In other words, he could create a couple more affordable housing units. By virtue of what the administration's done, Section 8 is now a liability in underwriting. In other words, my lenders are asking for reserves if a borrower says he wants to do Section 8.

And then, finally, what Katrina has taught us is, you can't rob Peter to pay Paul. It doesn't make sense to take money away from Missouri or Ohio for those States. They need their own dedicated resources. Because their rents were so low pre-Katrina, we think they need Section 8 vouchers on top of the generous tax credits being provided. And finally, I'm not going to go into the details with this. Just know that we've been following the Basel Accord, the international risk-based capital rules. Right now, American regulators are supporting us in saying banks' investments in communities shouldn't be subject to the kinds of capital requirements on investing in Bill Gates' latest venture. And I hope that will all come together. We'll be following it closely. Thank you for giving

us this opportunity to talk about this lovely new face of affordable housing.

[The prepared statement of Ms. Kennedy follows:]

Statement

Of

Judith A. Kennedy
President and CEO

National Association of Affordable Housing Lenders

Subcommittee on Federalism and the Census
House Committee on Government Reform
U.S. House of Representatives

June 20, 2006

Thank you for the opportunity to testify about the importance of the Community Reinvestment Act (CRA) to meeting America's affordable housing and community development needs. We believe that CRA has been, and will continue to be, critical to the success of federal housing programs because it encourages private capital lending and investing in affordable housing and community development projects nationwide.

I have worked in the field of affordable housing and community development for more than 30 years. Our association, the National Association of Affordable Housing Lenders (NAAHL), represents America's leaders in moving private capital to those in need. NAAHL encompasses 200 organizations committed to increasing lending and investing private capital in low- and moderate-income (LMI) communities. This "who's who" of private sector lenders and investors in affordable housing and community and economic development includes 50 major banks, the 50 blue-chip non-profit lenders, and insurance companies, community development corporations, mortgage companies, financial intermediaries, pension funds, and foundations.

In the 20th century, America saw the "good", the "bad", and even the "ugly" in affordable housing. The very good news is that, during the past decade, the affordable housing industry has experienced a significant evolution and maturation in learning how to produce decent, affordable housing that people are proud to call home. For-profit and non-profit lenders and investors, developers, community leaders, and government at all levels, have learned to collaborate as partners in devising new solutions and creative strategies for financing affordable housing in thousands of communities.

We have learned over the years how to do it right: how to build affordable rental housing and homeownership properties that contain a mix of incomes, built with the discipline of the private market and using government resources responsibly. These homes are of high quality and lasting value, and remain affordable over the long run. This is the "New Face of Affordable Housing", and it is beautiful.

"Taking the Rough Edges Off of Capitalism"

Since enacted in 1977, CRA has provided a regulatory incentive for funneling literally hundreds of billions of dollars into low and moderate income communities. Former Fed chairman Paul Volker recently characterized the law as "taking the rough edges off of capitalism", by clarifying the responsibility of all Federally-insured depository institutions' "to help meet the credit needs of their communities", including those of the less affluent.

This infusion of private capital leverages public subsidy as much as 10-25 times, so more affordable homes can be built with a limited amount of government support. In an era of shrinking federal subsidy, an active and growing primary market for affordable housing lending is key to achieving homes affordable to persons whose income is classified as "low" (those under 50% of area median income) and "moderate" (those under 80%).

Every academic study of CRA has confirmed that the law has been enormously successful in incentivizing insured depository institutions' involvement in underserved areas. This increased lending and equity investing have spurred economic growth and demand, thereby increasing banks' opportunities to make even more loans and sell more services. Although summary data is hard to come by, the OCC has documented that just the national banks they supervise have invested more than $16 billion in underserved areas since 1992. Most of the bank investments made under this investment authority have been in Low Income Housing Tax Credits, while others qualify for Historic Rehabilitation Tax Credits, New Markets Tax Credits, and/or are made to "Community Development Financial Institutions". Banks currently hold at least one-third of housing tax credits, which help to finance 98% of affordable rental housing and 40% of all multifamily starts in the U.S.

CRA investments also support critically needed urban revitalization, rural development, and job creation. They do so in a manner that is not only beneficial to the communities served, but also ensures their profitability, and safety and soundness. In addition, banks supervised by the Federal Reserve Board, and the Federal Deposit Insured Corporation (FDIC), as well as the OCC, are examined not only on CRA-qualifying investments, but also on the loans and services provided to LMI persons and areas.

Ohio is an excellent example of significant CRA investments in affordable housing. NAAHL member Ohio Capital Corporation for Housing (OCCH) alone last year raised $182 million for affordable housing throughout the state, of which $113 million came from insured depository institutions. Altogether, OCCH has raised over $1 billion in private capital investments that generated 16,000 affordable homes in 70 Ohio counties. OCCH's Dayton Partners include: St. Mary's Development Corporation; Miller-Valentine; Dayton MHA; Daybreak; Oberer Companies; County Corporation; and Community Action Partnership. NAAHL member Red Capital, a subsidiary of National City bank holding company, preserved 165 affordable apartments just outside of Dayton, in Landmark Village, by combining bank investments, Section 8 project-based vouchers, and other support to renovate apartments for tenants with incomes of less than 50% of area median income.

Affordable housing lending has become increasingly sophisticated as experienced practitioners develop new products and share best practices. Given two decades of innovation and solid experience, our vanguard can offer specific suggestions for ways to ensure the sustainability of community investment, and also to encourage even more in the new millennium. NAAHL's policy recommendations are as follows.

Fannie Mae and Freddie Mac Leave Good Business on the Table: Enact H.R. 1461 Reforms of GSE Affordable Housing Goals

Lending on homes affordable to LMI persons has been limited by the absence of a secondary mortgage market for affordable housing loans. Without a regulatory incentive to do so, Fannie Mae and Freddie Mac have been reluctant to bring the benefits of a

government-sponsored secondary market to these loans. Consequently, NAAHL members are holding billions of dollars of multifamily mortgages, very good business that Fannie and Freddie continue to leave on the table. (See attachments 1 and 2)

Congress now has what may be a "once in a generation" opportunity to ensure that the GSEs begin to purchase affordable housing loans from primary lenders, both insured institutions and their non-profit partners, to replenish lenders' supply of loan funds so the cycle can begin again. The House approved new housing goals that refocus the GSEs on their affordable housing mission, with bipartisan support. The Senate should follow the House's lead in H.R. 1461 and reform the GSE housing goals as soon as possible.

Encourage a Joint CRA Rule, with Mid-Course Corrections to Support Affordable Housing

NAAHL members appreciate the fact that each of the four federal bank regulators has been flexible and supportive in responses to the unprecedented Katrina disaster. However, we remain disappointed that the OTS has not yet regularized the remainder of its CRA rules with the other three agencies. We strongly support regularizing the OTS requirements for "intermediate small" institutions with those of the OCC, the FDIC, and the Federal Reserve Board.

The FDIC, the OCC, and the Fed jointly issued a rule that expanded the definition of community development that includes affordable housing, and also requires banks to support their communities through meaningful services and community development loans and investments. The joint rule allows "intermediate small" banks more flexibility in meeting the unique credit needs of their communities, but also ensures that underserved individuals and communities continue to be well served by the banks that operate in their area. We urge the OTS to join the other three regulators in the joint rule. We also urge that all insured institutions have the option of a meaningful community development test, because the current rule discourages large banks from the very difficult, resource-intensive loans in LMI areas. (See attachments 3 and 4)

Increase the Statutory Cap on CRA Investments: Enact H.R. 3505

The House has also approved H.R. 3505, that includes an increase in the "public welfare investment" cap for insured institutions from 10% to 15% of their bank capital. The first increase since Hurricane Andrew in 1992, the cap increase was one of NAAHL's recommendations for encouraging Katrina rebuilding, and is recommended by the Federal Reserve and the OCC. The House measure would also permit all insured institutions that may be approaching the current statutory cap to continue to make investments in their communities. The Senate should accept the House increase. (See attachments 5 and 6)

Don't Rob Peter to Pay Paul: Dedicate Housing Vouchers to Katrina Rebuilding

The recent uncertainty about HUD's continued funding of Section 8 housing vouchers, along with the devastation caused by Katrina, underscore the necessity of stable, reliable federal funding for affordable housing and community development. It only exacerbates existing housing problems to move existing, insufficient resources from Ohio's needy

population to another in a disaster area. This monumental disaster requires net new resources for the many LMI families devastated by this hurricane, who can only return home if additional allocations of vouchers are provided.

Recent OMB proposals, and appropriated funding trends for Section 8 and public housing, have eroded private sector confidence in these programs, undermining lenders' confidence in the reliability of Federal support. As a result, local communities' ability to leverage private capital with limited federal funding is diminished. By contrast, with stable, predictable Federal funding, there is an even more significant role for private capital to play in financing affordable housing, including public housing.

Congress and the Administration should ensure predictable, stable funding for public housing, vouchers, HOPE VI, and other programs requiring private capital.

Exempt CRA Investments from Basel "Materiality Bucket"
The devil is always in the details of banking regulations. The bank regulators have issued a draft of new, international "capital" rules for large banks. As NAAHL proposed in 2003, it exempts almost all "public welfare"/CRA investments from higher capital charges. But it would require a bank which has 10% of its capital in all equity investments (such as Housing Tax Credits; Microsoft stock; convertible debt with warrants) to double the amount of capital reserved for the investments that don't qualify as CRA/"public welfare". It is critical that these low-risk but lower yielding "public welfare"/CRA investments, 90% of which are housing credits, be exempted from this 10% "materiality bucket" in the final rules, or banks will be discouraged from making these investments in the future.

We look forward to working with you to increase the flow of private capital to help meet the credit needs of all communities.

AMERICAN BANKER
THE FINANCIAL SERVICES DAILY
Friday, March 31, 2006

VIEWPOINTS

Fostering Multifamily Purchases by GSEs

JUDITH A. KENNEDY

Congress sponsored Fannie Mae and then Freddie Mac to increase the availability of credit for low- and moderate-income borrowers.

But the devil has truly been in the details; decades later the benefits of a government-sponsored secondary market have yet to accrue to many low- and middle-income borrowers, despite two decades of primary market progress.

Through staunch leadership by House Financial Services Committee Chairman Michael Oxley, R-Ohio, and Rep. Bob Ney, R-Ohio, that may be fixed. They have spearheaded successful efforts to have the House pass HR 1461, which would reform the affordable-housing goals for Fannie and Freddie.

The Senate should follow the House's lead by amending S 190 to conform with the House bill.

The House bill makes clear that GSEs have a duty to serve low- and moderate-income people, defined as those with incomes of under 50% and 80% of the area median — people whose credit needs insured depository institutions are also expected to serve.

Significantly, the bill requires the GSEs to purchase mortgages on rental properties affordable to low and moderate-income people, and it directs their regulator to ensure that Fannie and Freddie purchase "small" ($1 million-$3 million) multifamily mortgages that are the bread and butter of affordable rental housing everywhere.

The bill sets out regulatory authority — with teeth — to make it all happen.

This would begin to align GSEs' affordable-housing goals with primary lenders' Community Reinvestment Act responsibilities for helping to meet these credit needs.

For years, banks and nonprofit lenders (many of them members of my organization) have originated and now hold on their books billions of dollars of conventional, multifamily mortgages that provide housing for the elderly and disabled, among others.

Because the GSEs have not been required to purchase these loans, the increasingly sophisticated primary market has lacked the secondary-market liquidity that would have meant more funds for many more, profitable affordable-housing loans.

NAAHL members are sitting on billions of multifamily mortgages, good business that Fannie and Freddie leave on the table. Access to the government-sponsored, national secondary market that GSEs pioneered for other products would dramatically, and almost immediately, increase funds available to underserved borrowers and communities, and ultimately reduce costs.

Those of us who work to channel private capital into our nation's neediest neighborhoods see this as a rare opportunity to bring the benefits of Wall Street to help Main Street — good business for both.

Will it happen? The Senate should remove the question mark by passing a bill like HR 1461 that directs the GSEs to look for loans in the right places.

Ms. Kennedy is the president of the National Association of Affordable Housing Lenders in Washington. Its member lenders include financial institutions and state, local, and national nonprofit organizations.

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NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS

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Wells Fargo & Company

NAAHL SILVER MEMBERS
The Community Preservation Corporation
Harris Bank
HSBC Bank USA
LaSalle Bank Corporation
Merrill Lynch Community Development Company
Neighborhood Reinvestment Corporation
The Northern Trust Company
Wachovia Corporation

NAAHL BRONZE MEMBERS
Bank of New York
Bank of the West
California Community Reinvestment Corporation
Capital One
CharterMac
Community Investment Corporation
Enterprise Foundation/EHFS
FHLBanks
Local Initiatives Support Corporation/ National Equity Fund
Low Income Investment Fund
National City Bank
National Housing Development Corporation
Ohio Capital Corporation for Housing
ShoreBank

President & CEO
Judith A. Kennedy

July 5, 2005

The Honorable Richard Shelby
United States Senate
Washington, DC 20515

Dear Senator Shelby:

The National Association of Affordable Housing Lenders (NAAHL) represents America's leaders in moving private capital to those in need. Among our members are 50 insured depository institutions, and 40 of the nation's blue-chip, non-profit lenders. Since our companies comprise a "who's who" of primary lenders for housing affordable to low- and moderate-income (LMI) persons, your pending mark-up of GSE legislation is extremely important to us.

GSEs have developed an outstanding national secondary market, linking Wall Street to Main Street for many conventional mortgages. Simultaneously, primary lenders, like our bank and non-profit lenders, have done an outstanding job of finding profitable ways to finance housing affordable to LMI persons and in LMI areas, with little or no losses. This success is all the more remarkable because it happened without the benefit of a broad and deep secondary market. To ensure that the GSEs also provide the benefits of a national secondary market for housing affordable to underserved LMI areas and families (incomes under 80% and 50% of area median), NAAHL has 4 specific recommendations for legislation.

1. **Redefine the GSEs' affordable housing goals to focus on low- and moderate-income persons.** For 20 years, banks and non-profit lenders have been making loans on homes for families with incomes under 50% and 80% of area median income. If the GSEs have the same goal requirements as primary lenders, a national secondary market for these loans will mean that many more loans can be made.

2. **Direct the GSEs to purchase "small" as well as large multifamily mortgages.** Most affordable rental housing in America results from loans to "Ma and Pa landlords" to purchase and renovate existing buildings. The GSEs have left much of this profitable business on the table. But "small" $1 - $3 million dollar mortgages are critical to keeping housing affordable in states like New York and Massachusetts, as much as in Alabama, Utah, Florida and Indiana. Unless and until the GSEs are required to provide liquidity for such "small" mortgages, primary lenders' capacity to make more loans is limited.

3. **Build on what works: any GSE "Housing Outreach Fund" should**

leverage private capital investment in affordable housing. Risk management techniques that primary lenders pioneered long ago and have since refined have been ignored by the GSEs. Conforming GSE goals to CRA will help to address that problem, but it is also important that the GSEs not reinvent the wheel, but build on what our primary lenders have learned about originating, underwriting, and servicing affordable housing loans. The Fund "reserve" proposed in last year's Senate Banking Committee bill could provide seed capital to establish and support statewide top-loss insurance programs for multifamily mortgages. Such insurance would allow the GSEs to reduce their spreads and purchase contemporary loans on affordable housing, and also ensure liquidity for innovative multifamily financing that has yet to be conceived. The State of New York Mortgage Agency (SONYMA) provides a good model for leveraging limited subsidy to increase financing of affordable homes.

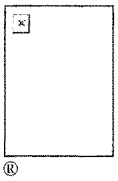
4. **Update the GSE charters to provide efficient access to the capital markets for all affordable housing lenders.** The Federal Reserve Board of San Francisco recently documented the success of 10 non-profit lenders that make loans on housing affordable to LMI elderly, disabled, and families. In diverse states such as Alabama, Florida, Utah, Oregon, Georgia, California, and Washington, they found that 71% of the mortgages made by these non-profit lenders benefited persons under 50% of area median income; 97% of the loans benefited those under 80%! Losses averaged only three tenths of one percent on $8 billion of multifamily mortgages. GSEs can meet both business and their mission objectives not only by purchasing these lenders' loans, but also through agreements to purchase future loans originated according to set criteria. When the GSEs were chartered, no one anticipated the banks' and non-profit lenders' ability to provide many billons of private capital to affordable housing so rapidly. Fannie Mae and Freddie Mac should now recognize non-profit lenders and smaller banks with strong track records in affordable housing as "delegated underwriters".

   In addition, all 3 GSEs should extend their advantaged cost of funds to non-profit lenders, as well as to banks, for loans on affordable housing on a full recourse basis, where the lenders have significant capital to support such a line of credit and successful track records in financing multifamily affordable housing. This builds on the 1999 amendments to the Federal Home Loan Bank Charter to permit state housing finance agencies to be non-member borrowers of the Federal Home Loan Banks.

   History has taught us that linking Wall Street to communities' low- and moderate-income streets and persons is too important to be a discretionary activity, available only to a favored few. We look forward to working with you to develop a national secondary market that helps to meet the credit needs of all communities and all Americans.

   Sincerely,

Judy Kennedy
President



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Harris Bank
HSBC Bank USA
LaSalle Bank Corporation
Low Income Investment Fund
Merrill Lynch Community Development Company
National City Bank
NeighborWorks America
The Northern Trust Company
Wachovia Corporation

NAAHL BRONZE MEMBERS
Bank of New York
Bank of the West
California Community Reinvestment Corporation
Capital One
CharterMac
Community Investment Corporation
Enterprise
Fannie Mae
FHLBanks
Local Initiatives Support Corporation/ National Equity Fund
National Housing Development Corporation
Neighborhood Lending Partners
Ohio Capital Corporation for Housing
ShoreBank

President & CEO
Judith A. Kennedy

May 19, 2006

Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Re: Docket No. 2006-17

The National Association of Affordable Housing Lenders (NAAHL) represents America's leaders in moving private capital to those in need – 200 organizations committed to increasing private capital lending and investing in low-and moderate-income (LMI) communities. Members are the "who's who" of private sector lenders and investors in affordable housing and community development: banks, thrifts, local and national nonprofits, mortgage companies, loan consortia, financial intermediaries, pension funds, and foundations.

We appreciate the opportunity to submit comments on the agency's notice of April 12, 2006, which would revise OTS guidance relating to the Community Reinvestment Act (CRA).

CRA has been vital to building emerging markets nationwide. Lending and equity investing in underserved communities have already spurred economic growth and demand, thereby increasing opportunities to make more loans and sell more services.

The rule codifies OTS' announcement that all thrifts will get favorable CRA consideration for Katrina relief, recovery efforts, and rebuilding if they are satisfactory or above in assessment areas. NAAHL members appreciate the fact that each of the four agencies that regulate insured institutions have been flexible and supportive in their responses to this unprecedented disaster. We also support regularizing the definition of community development with that of the OCC, FDIC, and the Federal Reserve. However, we remain disappointed that the OTS has not yet regularized its CRA rules with the other three agencies.

The FDIC, the OCC, and the Federal Reserve have jointly issued a rule that expanded the definition of community development, but also: 1) requires banks with between $250 million and $1 billion in assets to support their communities through meaningful services and community development loans and investments; 2) reinforces the fact that some lending practices can count against an institution in a CRA exam. The joint rule allows banks more leeway in fulfilling CRA requirements and ensures that LMI individuals and communities continue to be well served by the banks that operate in their area.

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We urge the OTS to join the other three agencies in their joint rule. If we can answer any questions or provide additional assistance regarding our comments, please do not hesitate to contact us.

Sincerely,

Judy Kennedy
President and CEO

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THE FINANCIAL SERVICES DAILY

Friday, September 13, 2002

VIEWPOINTS

CRA Rules Should Help Banks Do More Than Simply Meet an Artificial Goal

■ BY JUDITH A. KENNEDY

This year's mandatory review of the Community Reinvestment Act gives regulators a real opportunity to reshape the rules so that they produce the right results — not just the right numbers — in the new millennium.

Several academic studies have now confirmed that the CRA has been enormously successful in helping insured depository institutions increase lending in low- and moderate-income neighborhoods, and 1995 regulations helped bring credibility to CRA performance.

But the experience of CRA practitioners suggests the importance of some midcourse corrections both to ensure the sustainability of the community investment business and to encourage investment in what's right for communities rather than for the call reports.

First, the so-called "investment test" for large retail banks has probably created more problems than it solved. As the Federal Reserve Bank of Philadelphia pointed out last year, there are "a limited number of CRA investment alternatives — especially investments that pay a market or near-market return."

Rather than throw the baby out with the bathwater, the best solution is to organize all qualitative aspects of CRA performance into a single, separate "community development test" that would incorporate community development lending, investments, and services. This would restore some balance between quantitative and qualitative factors to ensure that CRA business is sustainable. It would also give financial institutions more flexibility to design programs that match community needs with their business strategies.

The current emphasis on statistical information can be so great that it obscures the community needs, performance context, and business case for some loans and investments.

Second, the performance context should get stronger emphasis in evaluations. All communities do not have the same needs. All institutions do not have the same business strategies. Requiring only that institutions "make their numbers" can result in nonproductive resources being spent finding the needle in the haystack, or too many lenders chasing the same deal.

The best solution is to organize all qualitative aspects of CRA performance into a single, separate "community development test".

It should be easier for institutions to make the greatest effort where the greatest need exists, without being required to meet artificial ratios, twist loans into "investments," or make "investments" that are written off as grants.

Initiatives that are truly innovative or complex are very resource-intensive; because they often address the most acute community needs, they often generate low numbers. More credit for initiatives such as lending on tribal lands, or stimulating commerce in Appalachia, would encourage institutions to address the greatest needs.

Third, rules should be applied consistently, by all regulators and across all geographic areas. Inconsistent interpretation and application of the rules has been a continuing problem. It should be addressed.

So should overly burdensome and expensive data collection and reporting. Current rules requiring multiple public files kill way too many trees for little or no benefit. Very few people go into branches and ask for CRA information. Each institution should provide one paper set of data only; each branch could be required to have written contact information to respond to inquiries for all of the institution's information.

Today community investment is a dynamic, innovative, and big business, but current rules discourage innovative responses to communities' credit needs. Regulators have an historic opportunity to correct the course of regulations, which have done much to increase the flow of private capital into low- and moderate-income communities — but could do more. They should do so. ■

Ms. Kennedy is the president of the National Association of Affordable Housing Lenders in Washington.

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Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

April 13, 2006

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
Washington, DC 20551

Subject: Board Comments Expressing Concern about the Proposal to Enhance the Authority of National Banks to Make Community Development Investments

Dear Chairman Bernanke:

It recently came to my attention that you raised a concern in your letter dated February 27, 2006, to Senator Crapo, about a regulatory relief provision proposed by the Office of the Comptroller of the Currency (OCC) to expand the number and dollar amount of public welfare investments permitted to be made by national banks.[1] The issue noted may arise from a misunderstanding of how the OCC interprets and implements the public welfare investment authority of national banks, so I wanted to make sure our approach is clear.

Under a provision of the National Bank Act, 12 U.S. C. § 24 (Eleventh), a national bank may make community development investments directly, if they are designed primarily to promote the public welfare. A national bank also may make community development investments indirectly under this authority, for example, by investing in a bank-owned community development corporation (CDC) that is primarily engaged in making investments designed primarily to promote the public welfare. This authority is almost identical to the public welfare investment authority granted state member banks.[2]

We implement this authority consistent with the statutory criteria defining "public welfare" to include promoting the welfare of low- and moderate-income communities or families (such as by providing housing, services, or jobs).[3] If a national bank seeks to make an equity investment

[1] Attachment C to your letter stated that: "[T]he Board is concerned that the public welfare and community development standards, as currently interpreted under 12 U.S. C. § 24 (Eleventh), may be misused to allow investments that do not serve the community development needs of local communities. The Board is willing to work with Congress and the Office of the Comptroller of the Currency to ensure that investments made under this authority are properly focused on helping meet the public welfare needs of the community."

[2] 12 U.S.C 338a.

[3] For purposes of the Community Reinvestment Act, (CRA) the federal banking agencies have stated that an activity generally has a "primary purpose" of community development when a majority of the dollars involved, or a majority of the beneficiaries of the activity, can be attributable to a community development purpose. This standard also is followed in the context of public welfare investments. Under the CRA, qualified community development

directly under this "24 (Eleventh)" authority, we will evaluate the transaction to ensure that the investment has a primary public welfare purpose. For example, a direct investment by a bank in a rental housing project in which a majority of tenants are low- and moderate-income is an example of an investment designed primarily to promote the public welfare. Other typical public welfare investments include providing financing for businesses that employ low- and moderate-income persons or provide benefits to low- and moderate-income communities.

For public welfare investments made indirectly through a bank-owned CDC, we look through the corporate structure to the individual investments by the CDC: each must be designed primarily to promote the public welfare – as if each investment were made directly by the bank itself.

We know of only one instance, several years ago, where the OCC learned that a bank's CDC had made an investment that did not have a primary public welfare purpose. When the problem was identified, the OCC notified the bank that its investment in the CDC was inconsistent with our public welfare investment standards and the problem was corrected. Our oversight and new notice process helps to ensure that national banks and national bank CDC's do not make separate, stand-alone investments that fail to have a primary public welfare purpose.

I hope this information addresses the concern referenced in your letter. If you need any additional information, please let me know.

Sincerely,

John C. Dugan
Comptroller of the Currency

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investments include investments in financial intermediaries, including CDCs and community loan funds, that primarily facilitate lending in low- and moderate-income areas or to low- or moderate-income individuals.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

May 12, 2006

BEN S. BERNANKE
CHAIRMAN

The Honorable John C. Dugan
Comptroller of the Currency
250 E Street, S.W.
Washington, D.C. 20219

Dear John:

Thank you for your letter, dated April 13, 2006, concerning how the Office of the Comptroller of the Currency (OCC) interprets and applies 12 U.S.C. § 24(Eleventh), which authorizes national banks to make, directly or indirectly, investments designed primarily to promote the public welfare, including the welfare of low- and moderate-income communities or families.

The Board has long supported efforts to assist and encourage banks to meet the community development needs of their communities. However, as you note, the Board has had some concerns with how the public welfare investment authority in section 24(Eleventh) was being applied in light of OCC Interpretive Letter No. 837 (Sept. 4, 1988). That Interpretive Letter suggested that a national bank could establish and own a community development corporation subsidiary under section 24(Eleventh) if only a majority of the individual investments made by the subsidiary met the statute's public welfare test.

You have indicated, however, that it is the OCC's policy to "look through" the corporate structure of a national bank and its subsidiaries to ensure that each investment, on a stand-alone basis, made or held by a national bank or a subsidiary of a national bank under section 24(Eleventh) has public welfare as its primary purpose. We appreciate your assurances in this regard. We believe this approach helps ensure that the authority granted banks by section 24(Eleventh) is properly channeled toward and limited to investments that are designed primarily to promote the public welfare and is not used to allow ownership of investments that do not have a primary public welfare purpose. Indeed, this is the same approach that the Board follows in applying 12 U.S.C. § 338a, which provides state member banks corresponding authority to make investments that are designed primarily to promote the public welfare.

In light of your assurances, the Board would be pleased to support legislative amendments that would increase the statutory limit on the aggregate amount of public welfare investments that a national or state member bank may make or hold under section 24(Eleventh) or section 338a with the approval of the OCC or Board, respectively, from 10 percent of the bank's capital and surplus to 15 percent of the bank's capital and surplus.

Sincerely,

Mr. TURNER. First off, I want to thank all of you again for incredible testimony, incredible insight into this issue and topic. But as you are aware, our subcommittee has been taking a look at public housing and affordable housing and the mechanisms for funding that are out there, its impact on neighborhoods and communities and the impacts on residents. The discussion that we're having on the ability to assist residents in transition, providing services to residents who are in public housing, recognizing that communities that have public housing are hosts to those housing, it's part of the fabric of the neighborhood and the community. And how do we make certain that the neighborhoods and the community and the public housing authorities are meshed? And then the issue of the capital markets, and how do we find private capital to support affordable housing?

And, Buzz, you gave an incredible discussion of the tax credit process, and your chart is incredibly helpful. You took a $150,000 unit and indicated $90,000 of the money would be coming from tax credits, $35,000 from a first mortgage, $25,000 from a gap financing, which could be in the form of additional public subsidies that come from either CDBG or home dollars that a community contributes.

In their discussions, both Ms. Kennedy and Mr. Roberts, you acknowledge also that some of these Low-Income Housing Tax Credit developments would seek residents with Section 8 vouchers and provide housing for them. When you look at the ability to provide private capital to these projects, the amount of subsidy does get to be significant. I mean, even though there's a line of tax credits being a credit, it really is in the form of a grant. And those are Federal moneys that are going directly to the project through private hands. They're exchanging a credit that they're going to receive off of their income taxes in exchange for the dollars that they're handing to the development.

So of the three categories that you identified, only one is fairly clear or clean of any other additional subsidy. Then once you take the tenant, and if they have a Section 8 voucher, you have additional subsidy that's being laid on top of that. Perhaps you could speak for a moment as to why this is still a good deal even though the tax credit line item, the gap financing, which could be CDBG dollars or home dollars, and the Section 8 voucher placed on top of it are all looking to some type of Federal program or source?

Mr. ROBERTS. Right. Well, it costs a lot of money, and it takes a lot of subsidy in order to serve very low-income tenants on a sustainable basis. And you know, it's just a matter of math. If you have a tenant who is earning $20,000 and they can afford to pay 30 percent of that for rent, that's about $500. First, off the top are things like utilities and maintenance and repairs and management, and that just doesn't leave a lot of cash-flow available to carry a private mortgage.

So if there were plenty of supply of affordable rental housing, this would not be a worthwhile thing to do. But I would also say there are four or five specific kinds of cases where there is simply no substitute for production. One is where you have deteriorating stock that is dragging down an entire neighborhood, and unless you fix that stock, you are going to lose a lot more not just affordable

housing opportunity for poor people but also moderate-income housing for moderate-income people and middle-income people in that same neighborhood. We lose entire neighborhoods because of this kind of deterioration, and a few billion dollars of prevention is worth manyfold that in cure.

Second is there is some housing that serves populations that have special needs, whether they're homeless or elderly or disabled or struggling to become independent off welfare or whatever the case is. In those special needs housing situations, you have to produce because there is an integral service and housing system that enables folks to live stable and independent lives. And it's much cheaper to do that than to have mentally ill people unstable, committing crimes landing in acute care in hospitals, landing in jail; much cheaper than paying through the Medicare/Medicaid system for nursing homes because there's no decent independent living facility for the elderly and the like. And third is, there are some places where we have just outright supply shortages, and you have to produce in order to overcome those.

Ms. KENNEDY. Can I just add to that?

Mr. TURNER. Ms. Kennedy, if you would pause for a second. I think almost all of you are aware, I'm a big fan of Low-Income Housing Tax Credit. So having served as mayor of my community two terms, 8 years, one of the things that we had undertaken and were utilizing the Low-Income Housing Tax Credit for redevelopment, the senior housing is an area where we were most effective, even taking two abandoned structures where we combined it with historic tax credit to cause redevelopment. One of the developments—actually two of the developments ultimately my grandmother moved into. She moved into one and then relocated into another one when we opened the next one. And she was not receiving a Section 8 voucher, although she qualified for the income requirements. And so I'm aware also that you get a mix of the initial subsidy that occurs, and then some units where the initial subsidy occurs, but then also the Section 8 voucher provides additional subsidy. So the unit as a whole has a different cash-flow than just a public housing facility itself.

But my question—and Ms. Kennedy, we won't miss your comments. I will give you an opportunity also at the end to add anything that you want to add as we go along. I will give you all an opportunity to add to the record.

But the attraction of capital to these projects is really how they're tauted. The question would be to Mr. Roberts, Ms. Kennedy and Mr. Gutzmann—aware of any studies—and also, Mr. Riccio, if the other two of you are aware, or Mr. Moses, you can also chime in—of any study of comparison of the Low-Income Housing Tax Credit as a vehicle for providing affordable and low-income housing versus straight public housing, and its cost, overall subsidy cost to the taxpayer? I'm unaware of an actual comparison of how we can cut a check for public housing authorities to create a unit. We can put together a development vehicle for Low-Income Housing Tax Credit program which creates a unit. In the end, the cost to the taxpayer—I wonder if you are aware of how that comparison flushes out.

Mr. ROBERTS. I'm not sure I have seen a study about it, but I would say that our experience with housing credits has been I think unique in the history of Federal housing policy. And that's because it's a pay-for-performance credit. And if you only pay for success, you set up a system that really creates success. So in the housing credit world, we see foreclosure rates, which is how we measure failure, at 0.02 percent annually, 0.02 percent annually. That is a much lower foreclosure rate on low-income rental housing without the benefit of Federal guarantees or guaranteed rent flows than we see on any other form of commercial real estate, including luxury high rises, office and retail.

Ms. KENNEDY. I guess you hit the nail on the head with the story of your grandmother. When Mr. Oxley and Mr. Ney wanted to understand what pulling the rug out from Section 8 meant in their districts, Ohio Capital Corp. took them to a lovely tax credit building, introduced them to a lovely little old lady who had also lived in the building affordable to under 60 percent of area median income with a little help from her son. She didn't have a voucher. Until he went to Iraq, and he was re-upped. And all of a sudden, she needed a voucher to be able to stay in that apartment. So I guess I would say, think about this continuum of need. What CRA did brilliantly—let's use Chicago as an example where there's still a very strong housing stock that just needs some rehab. How can affordable to under 60 percent of area median income—there doesn't involve tax credits, but in Chicago for elderly and disabled, there is a need for tax credits, and in Chicago, there is a need for tax credits plus Section 8 plus home because of the cost of construction. And in Chicago, there is a need for public housing. So all of these resources put together address different places along the continuum of need.

Mr. GUTZMANN. Mr. Chairman, I would just echo that continuum concept. If you look at, again, the entire supply, if you add in the tax credit and the Section 8 and the public housing, we're still talking about 4 to 5 percent of the housing supply in America. That's all we're serving with all of these products, and there is a continuum, and they serve very different audiences. Tax credits can never reach the income levels that public housing serves. The tax credit deals generally are targeted to people at 50 to 60 percent of area median income. Public housing across the country from the backward-up model of who applies, that's who you'll serve; it serves 20 percent of AMI nationally. So it's, again, it's a slice of our inventory, 45 percent nationally, and it's really a gut check of America on how we want to serve. There's no secret to get those kind of deep subsidies. It costs money.

And last point I'd make, in St. Paul, it costs me $650 a month to run a public housing unit. The backward model of rent based on income, my average rents are $200. I can only serve people at 20 percent of AMI if I get $450 a month from HUD. And if we want that product deeply affordable, then we have to pay. There's no other way to really make it work. We're kind of saying that now we don't want the product, is really the state of our world. The appropriations have basically already written off 20 percent of the housing supply of America. And we're going the wrong direction

with our funding, and there's just no secret. It costs money to serve low-income folks.

Mr. TURNER. Mr. Moses and Mr. Riccio, I want to change topics for a moment because, in the two different testimonies, there was a great comparison of the issue of what I consider the transition process for low-income housing. Obviously, our seniors or those who have a disability who are in our public housing or some other condition that is making it difficult for them seeking employment or making a transition, impediment if you will, are those individuals we want to make certain we provide that safety net in the continuation of housing opportunities in public housing? All the other studies that have been done have indicated that the most important thing that we could do in public housing besides providing clean affordable safe housing is the intervention process of assistance for those individuals that have the ability to transition to independence; that being the goal of those who are in public housing, is the same goal as the providers, same goal as the taxpayer and the families that are impacted. That is a difficult process in that the circumstances of each individual who's in public housing, their needs, the assistance that they need and intervention for transition will vary widely.

In looking at the public policy issues of how do we make certain that people are in an environment that encourages transition and independence, one of the ills that we saw was economic segregation. When you look at the model of a small town, those individuals who are in an economically diverse small town, their children, their families tend to do better in the opportunities for transition than individuals who are in high-concentration poverty neighborhoods. And you know, when I was the mayor of Dayton, I lived in one of the lowest-income census tracks in the city. And I can tell you that, as the neighborhood was transitioning, one of the things that was important for the interaction in the community was an understanding of what's even necessary as children looked to their dreams as to what they might become in the future, as to what's necessary for them to do now, what's necessary for them to do later, if someone wanted to say, I want to be a lawyer, it was important that there was a lawyer in the community that can say, what does it mean, if you're going to have that goal and pursue it, what is that path? So economic segregation we know is an ill that we want to remedy. I'm not very fond of the word deconcentration because it sounds like your goal is dispersal of the individuals instead of improving the lives of the individuals, and in our public policy review, economic segregation has proven to be a cycle of poverty.

Mr. Moses, you gave a great description of the concept of community that I think is one that certainly I saw in my neighborhood, and I think is very important.

Mr. Riccio, you gave a great—your testimony was a great public policy outline of the types of topics and issues that we're addressing. So I'd like if we could for a moment have a discussion, and we'll start with Mr. Moses and then Mr. Riccio.

I'm also very fond of saying, those of you who have been to my hearings before, you know that another word that I hate is gentrification because I've never met a gentry in my life. So when we look at communities that are in transition that are going to di-

verse economics, it does appear that there is an improvement in opportunity for everyone who is in the community. And Mr. Moses, I'd like you to expound, if you would, on your statements because your statements could be taken to be cautionary of making certain, as you're making this transition, that you be sensitive to the issue of—that you have a community that you are dealing with, relationships and individuals, much as we should have been when we put the interstate highways through cities and didn't take into consideration the fabric of the communities that we divided. Or it could be an alternate view of the issues of the public policy of making certain that we have economically diverse communities.

And Mr. Riccio, if you would, in following up on that, if you could talk to how our having diverse economic communities might relate to the issue of transition economically.

Start with Mr. Moses.

Mr. MOSES. Thank you. I appreciate what you said, sir, and I look at what I used to do when I came to Washington, when I first came here, and I met Cushing Dolbeare some years ago, and she has been my mentor in this whole process. There was a place I believe that was called the Chili Bowl. It was a great place where you could go get food, great, great restaurant. And I remember the guy telling me the story that as he was growing up, and his dad was there; he knew everybody in the two-block radius. Now he knows no one. This is the story that's happening all across America. In Pittsburgh, it's the same thing. When you break up that fabric—I remember once taking some foundation folks in Pittsburgh on a tour of the public housing communities in Pittsburgh because all they had was this negative stereotype of who lives in public housing. And one morning, we got up, and we took a bus, and we rode through the communities, and they saw people getting up in the morning, going to work with their children, and fathers and mothers going, doing jobs. And then we took them into some folks' homes in public housing. And they were amazed to see the folks live the way they did, and the lady says, well, this is my home, why should it not be that way? Your home would be the same for you. This is my home. And she was really amazed at that. Why, I could not understand. But she was really amazed at that. And then we came through what we call was the HOPE VI thing. I lived through the urban renewal when the lower hill was removed, and my family was displaced, and we had to go other places. It happened all over again when we did this with the HOPE VI thing. People who had got removed in the 1960's were now being displaced in the 1990's, and the alternative was, people again were losing that connection of family, of friends. When I lived in these communities—in Bedford Dwellings. It was called Bedford Dwellings. It was a 1,700-unit complex that was straight-lined. But in there, there were different communities. There was Francis Street. There was Summers Drive. Whiteside Road. And when I get back, I'm going to a Whiteside Road reunion where we all get together again, but when they came in and said, we're going to make it better, and we're going to tear it down and rebuild, a lot of folks got scared because they remember what happened in the 1960's, and being not included in the planning process of what was taking place, families and neighbors got split apart as if you dropped a

bomb back onto the community. And people who—I remember as a young man coming up, and there was a young lady. She's referenced in this book, Root Shock, which chronicles—Pittsburgh, the study was done there—that we could go to her if we had a problem; if you needed some, a little bit of money to pay your rent, if you needed a baby sitter, she would settle disputes. She was the matriarch of the complex.

But when they came in and they said "boom," everybody went. They pushed us places that we had no existence of, no knowledge about. And that fabric of quality, of neighboring, was lost.

Who do I turn to when I need a babysitter? Who do I turn to when I have a problem? And as some of this, as we are led to believe in this Moving-to-Work experience, in Pittsburgh, at least, they said they were supposed to create all of these tiers, and it was not done.

All of this case management, all of these things that were supposed to keep us together, it did not happen. And as a result, in some instances, 450 families, they don't even know what happened to them. Still do not know what happened to them.

And so when we look at this, we must be very sensitive to what we do when we come into a community, and, for the sake of revitalization, we tear that inner fabric that makes a neighborhood, that makes a community. And we must be very sensitive to that.

Mr. TURNER. Mr. Moses, that was a very compassionate and great description of that issue.

Mr. Riccio.

Mr. RICCIO. I would like to make two comments about mixed income. One is creating mixed income populations within public housing. One way to do it is to try to get higher-income people to move in. That doesn't necessarily do anything, at least in the immediate term, for the people who are already living there.

Another way is to try to help the people who are living there move up. And that is the effect that Jobs-Plus had, particularly in communities where there was not very high turnover in public housing. So you can raise average earnings, increase the mix of income, or intervene, as Jobs-Plus did within the Public Housing Development itself. That is one strategy.

Another strategy is to move people out of public housing to lower-poverty communities. There is another very rigorous study of the strategy to do that, the Moving to Opportunity Study, which used a random assignment methodology. So it was a very credible study, and it found that although there were some positive outcomes on safety and other issues, there were no effects on self-sufficiency outcomes. There was no increase in employment and earnings.

So I think the idea of just moving people to a different environment, to a lower-poverty environment, and expecting that is going to change their economic experiences in the short term, doesn't seem to be supported by the evidence we have so far.

It may be that if you move people to lower-poverty communities but you connect them to an employment-focused intervention that tries to help them adapt to work and take advantage of new opportunities that might confront them in that community, you might see some change in economic outcomes.

Mr. TURNER. We turn now to Mr. Clay. And I appreciate his patience as we have had this discussion.

Mr. CLAY. Mr. Chairman, let me ask Mr. Gutzmann, have rental policies under QHWRA, such as the flat rent option, as opposed to families paying 30 percent of their income, had a positive or negative effect on your members' efforts to stimulate economic self-sufficiency, and are the results the same between large and small or urban and rural PHAs?

Mr. GUTZMANN. Thank you. Sir, they have had some positive effect, I would say. But QHWRA ultimately limits any rent structure to 30 percent of median income. You can play around with flat rents, ceiling rents a little bit, but ultimately QHWRA did not repeal Brook, and Public Housing can ultimately not charge more than 30 percent of adjusted gross under any scheme.

So you can have flat rent models, ceiling rent models, but it is not a true market model, and perhaps—nor should it be. It still should be affordable. I do not think there has been any difference in application across large or small.

The fact of the matter is, it is still a very incredibly complicated rent-setting system. If you think about it, there is basically one rent for every person who lives in public housing. They all have their own rent. And that is 1.2 million households with their own rent.

It is very complicated. It is very affordable, but it is very complicated. There are always charts we have published on all of the steps you have to do to disregard income. Congress just passed a new one with the appropriation bill that disregards military income.

So housing authorities have to figure that out. HUD is over us on every little mistake; they say we are inefficient if we have one mistake. But let's just think about it. There is probably 1.2 million rents for 1.2 million households. It is very complicated.

Mr. CLAY. Sounds complicated. In your testimony you mentioned the Jobs-Plus program. Please offer us some examples of success stories from St. Paul's Jobs-Plus programs and how they can aid poverty deconcentration efforts.

Mr. GUTZMANN. Thank you, sir. We are proud to be one of the demonstrationsites in St. Paul. We had the program for 7 years. The headline was that the control site, when it began, only 16 percent of the people were working; and when it was over, 51 percent were working. And their incomes doubled during that period of time.

Mr. Riccio was a close partner. MDRC evaluated it. The trick, though—and I talked to Jim about this—it costs the Federal Government $1.4 million for our success. Those 350 families really became successful because we fixed their rent problem.

We did not increase their rent when they got their job. And that cost us lost rent, and HUD paid. And it cost us $1.4 million. HUD paid. So my comment is, it is a very successful model. People went to work, doubled their income, but it was kind of costly.

Mr. CLAY. I don't see that as too costly.

Mr. GUTZMANN. I personally do not see it as too costly.

Mr. CLAY. We spend money on other objects around. Thank you for your answer.

Mr. Moses, in your testimony you talked about the Chili Bowl. It was really Ben's Chili Bowl, still here, located at 13th and U Streets Northwest. While you are here, you may want to visit. Let me ask you about QHWRA——

Mr. MOSES. Are you buying?

Mr. CLAY. It is very good. I have been going since a teenager. QHWRA does not require PHAs to replace units that are dilapidated on a one-for-one match with units built in their place.

What impact does this have on those at the lower economic rung of public housing?

Mr. MOSES. Thank you, sir. I would say it has a great effect. I think that has been one of the most impacted policies that has been—because from Pittsburgh, they demolished millions—thousands of units. And when you do not replace those units, you lose the affordability, you lose units of affordability for folks.

As I have said in my testimony, that Pittsburgh, by the University of Pittsburgh's report, that we are lacking 15,000 units of affordable accessible housing. And so when you have a PHA demolished, let us say 1,200 units of affordable public housing units, and only rebuild, let's say, 480 units, and of those 480 only so many are public housing units, so many are tax credit units, so many go for market rate, the loss becomes great. So it does affect folks, it does affect where folks live and how they—and where they live and who they live with.

Mr. CLAY. Thank you for that response.

Let me ask you one other question. Does a 1 or 2-year exemption for those beginning to work again provide enough time for them to regain financial stability before facing rental rate increases? The 1 or 2 years, is that enough time?

Mr. MOSES. Good question. And personally I do not know, sir. I would, in the jobs market that is out there, in—and as we have stated where the minimum wage, which most of our workers earn, and they cannot afford nowhere; if they go up the pay scale, it might be, but they would have to get at a scale where we are talking about $15 an hour to maintain a 1-bedroom unit. So 2 years, I am looking at, and I would say it would be close, but it would be very close to doing that.

Mr. CLAY. Thank you for your response. I am going to move down the line.

Mr. Riccio, are PHAs better suited to participate in Jobs-Plus if they are moving toward communities, or if they participate in other types of public housing demonstrations?

Did you hear the question.

Mr. RICCIO. Jobs-Plus, in fact, was—the Jobs-Plus sites were, in fact, Moving-to-Work sites. So they did have additional flexibility to change the rent rules and to do other things in support of the program. So certainly the ability to change the rent rules was fundamental to Jobs-Plus. And Moving-to-Work, providing that opportunity. That is not to say that you couldn't operate Jobs-Plus outside of the context of Moving-to-Work if there were other ways, other legislation that would provide for modifying rent rules.

Mr. CLAY. Mr. Roberts, can you offer us some stats on the number of low-income areas affected since the Office of Thrift Supervision eliminated financial service requirements for thrifts?

Mr. ROBERTS. Well, thrifts operate in low-income communities and elsewhere all around the country. So I would say that, in general, most places would be affected by that relaxation of the thrift requirements.

Mr. CLAY. OK. Let me shift to another issue that you brought up. In your opinion, are revenue-based tax credit programs considered a more desirable redevelopment funding mechanism for lenders than discretionary programs such as HOPE VI?

Mr. ROBERTS. Well, you know, as the point was made earlier, you need different tools in your tool boxes for different tasks. I am reluctant to say that screwdrivers are better than hammers, in general. They are better for driving screws than hammers are, for sure, but hammers are better for driving nails.

There are certain ways in which HOPE VI is absolutely fundamentally important. If you have a very large Public Housing Development project that you need to redevelop, you probably cannot get enough housing credits and home and CBDG money to do it, because that money has to be distributed fairly widely, and you need a big hunk of money from HOPE VI, typically $25 million or so, in order to get that done.

Second is that even in HOPE VI deals, HOPE VI does connect with housing credits and private mortgage finance. Usually the mix is a little different. And, of course, you need to have the public housing operating subsidies or something equivalent to that in order to make sure that whatever portion you want to preserve as affordable to extremely low-income people, can do that.

You know, capital subsidies are different from operating or rent subsidies. If a family cannot afford to pay in rent enough money to cover the basic operating expenses of the building, you can give the building away for free and it is not going to be sustainable and affordable at the same time.

So you really do need to have the mix. The key is to have a local system in place, a partnership network that understands the different roles that they as players contribute to the system, and the different tools in the Federal tool box that can be best applied in the right way.

Ms. KENNEDY. I would add one thing quickly, and that is, in my experience, the key to private capital coming in is stable, predictable funding. In tax credits you have relative stability. You have a commitment to the investor to maintain all of the factors necessary to ensure those tax credits. And as Buzz pointed out, you have the discipline, then, of the private sector overseeing that.

Five years ago, section 8 was considered stable, predictable funding. And banks leaned on Fannie and Freddie for worrying about appropriations risk and not buying those loans because they involved Section 8.

We were talking about financing public housing, property by property. Well, the funding is no longer stable, it is no longer predictable, it is no longer an asset.

Mr. CLAY. Thank you for that. Mr. Chairman, my final question to Ms. Kennedy.

What role or responsibilities do your member institutions play in the rebuilding of the gulf coast and other areas destroyed by natural disasters?

Ms. KENNEDY. Well, I think there are exciting opportunities. This is a case where all four financial regulators—from day one, because you are a member of the Financial Services Committee—were flexible and understanding about the waivers the banks needed to continue to support recovery and then rebuilding. And we are very pleased with that.

Recently, NAAHL members captured—by NAAHL members I mean both our nonprofit lenders and our banks, about $660 million of new markets tax credits, which will be an enormous incentive to economic recovery in the gulf. We know that there are lots of low-income housing tax credits.

And so I think this package of tax credits, if and when it is supplemented by some of these spending subsidies to get down to the very low income.

In Alabama tenants were paying $40 a month for rent. Now, low-income housing tax credits are not going to allow people to come back at $40 a month. So I think banks and nonprofits are going to be hugely involved, and it is just a matter of, again, stable, predictable funding to supplement tax credits.

Mr. CLAY. Has your association or your institutions taken a position on the adequacy of the insurance programs and their coverages in the gulf coast region?

Ms. KENNEDY. The adequacy of which?

Mr. CLAY. Of the insurance coverage, of the insurance programs. Is there adequate protection?

Ms. KENNEDY. Well, I cannot speak for my members on that, because we haven't discussed it. I think there are a lot of uncertainties. And I certainly hear the banks talking about that. And I think for the nonprofits, again, they attract private capital based on some predictable streams of income. And if there are uncertainties about getting insurance, the banks always say they haven't been so interested in the insurance companies having to lend in low-income neighborhoods, they are concerned about insurance companies insuring the properties on which the banks have made mortgages.

Mr. CLAY. I thank all of the witnesses for their responses. Thank you, Mr. Chairman.

Mr. TURNER. Thank you, Mr. Clay. Appreciate your assistance and certainly your leadership in your community on the issue of public housing.

A couple more questions, Mr. Roberts, and Ms. Kennedy. In a previous hearing, one of the things that came up about CRA and the low-income housing tax credit, which is why we wanted to pursue this issue, was the question of why aren't we able to attract capital beyond banks and low-income housing tax credit developments?

And, second, if the CRA requirements were not there, would banks continue to invest in those opportunities? The answers that we received were that capital outside banks are not going to be attracted to these investments because their returns are so low that without an alternative incentive to invest, monetary return is not present sufficient for that to attract the capital.

The second is that there was a real fear that the CRA—and there is certainly in your testimony, Ms. Kennedy, you allude to it—that

absent the CRA benefit to financial institutions, that they might cease to fund these important investment vehicles.

Can you talk to both a moment about that issue, the need to keep the banks at the table; and the second, what do you think it would take so that these tax credits might be an attractive investment even beyond the compulsory incentive that we have for banks? We'll start with Ms. Kennedy.

Ms. KENNEDY. Sure. Well, I learned from the threat to tax credits that we survived a couple or 3 years ago that roughly banks hold about a third, Fannie and Freddie hold about a third, and other companies do hold about a third. And what their motivations are, in addition to tax relief, I don't know. Buzz may be able to speak to that.

You know, I think going back to the Volker comment about taking the rough edges off of capitalism, we certainly know from the Fannie, Freddie, Enron era, the pressure on management of companies to deliver stable earnings per share hit those numbers, and the fiduciary responsibility to get the highest return to shareholders.

All of that is mitigated by CRA. You know, in essence, the law said you are getting a Federal charter, you are getting insurance on all of your deposits, you get access to the payment system, you get Federal Home Loan Bank and Federal cost of funds. In return for that, you should have to meet the credit needs of your entire community.

And meeting the credit needs of the entire community has been a regulatory directive. The challenge for the banks and the nonprofits has been that the GSEs did not have that same regulatory directive. So they are sitting on billions of dollars of multifamily, affordable loans, single-family loans to people under 80 percent of varying median income. And when they try to sell them, they have to go one by one, like a Fuller Brush man, you know, to insurance companies and others who may be interested. Pension funds.

So I think the complicated issue is, you know, what role does this Federal regulatory incentive play in meeting the credit needs of very low-income and immigrants, and I think experience shows it plays a huge role. And not until private capital is flowing into every historically underserved community and is available to every historically underserved person at comparable rates, will we not need these incentives.

Mr. ROBERTS. I would say there are a few reasons why banks and other financial institutions dominate the investment market for housing credits.

Mr. TURNER. Before you go on, I just want to tell you, Mrs. Kennedy, we were just discussing among ourselves about how thrilled we were by your answers and your insight.

Ms. KENNEDY. Well, thank you.

Mr. TURNER. I think that you could cut out your testimony in this hearing on your answers and frame them, and you would have great succinct policy statements.

Ms. KENNEDY. I wish my daughter were here to hear this.

Mr. TURNER. Mr. Clay was mentioning that it would be helpful for the Financial Services Committee. But we do really appreciate it. It has been wonderful listening to you.

Mr. Roberts.

Mr. ROBERTS. Well, Judy is a tough act to follow. With trepidation, I proceed.

Mr. TURNER. Not to put you under any pressure, by the way.

Mr. ROBERTS. There are a few reasons why financial services companies dominate the investment market for housing credits. One of them is they understand the basic business of what it means to invest in affordable multifamily housing. And, you know, does General Motors specialize in that? No, they focus on building cars. So this is—it is close to home, whether it is a bank or a GSE or it is an insurance company that does this kind of thing all of the time, it is within their range and comfort zone.

The second is, for a bank, investing in housing credits generates other business. It can generate a construction loan on the same deal, it can generate other lending opportunities in the same neighborhood in which the housing credit deal plays a catalytic revitalization role.

And the third is, they get CRA credit for making the investment. And that does affect the price of housing credits. And if you lighten up on the interest of investors, specifically banks, in the credit, there will be other investors who come in, but at a different rate of return, and they will require a higher rate of return for that market to clear.

And when that happens, guess what? Go back to the table and the financing gap widens. And then Congress is very hard-pressed to appropriate additional funds to fill those financing gaps, and the bottom line is less housing and the housing that gets produced is less affordable to a wide range of families.

Mr. TURNER. Mr. Gutzmann, you were talking about the issue of the regulatory burden income calculation, the issues that you face in having to meet the Federal requirements for oversight.

It is obviously a difficult balance. The statistics that you gave us for your performance are wonderful, and certainly would be great to see in every housing authority.

But obviously there has to be a balance in that. On 60 Minutes we can probably all recall seeing exposes on poorly run housing authorities and the impacts on the families and on the neighborhoods. How do you balance that?

Mr. GUTZMANN. Well, Mr. Chairman, I just, again, want to thank you for holding these hearings. I can tell that you are a mayor—a former mayor—in your questions, and I can tell that you care about public housing and low-income people by all of your comments. And it really sings to me.

You balance it with tough love. HUD has all of the authority right now to get rid of poor performing housing authorities. Receivership is probably the best tool. When they are that broken, they need to be out of the local politics. As you know, in local politics you need to have executive directors who are not the brother-in-law of somebody, but actually legitimate housing professionals. You need to have strict oversight and accountability. And receivership has been a good model.

This housing authority in the District of Columbia came out of trouble by being placed in receivership. So I think you have to deal with the bad actors, and get them to perform on a performance-

based model that exists. They are an embarrassment to the industry. And we who struggle hard to perform our mission feel that they weigh us down.

Having said that, we know they are a small number of the 3,200 housing authorities, but yet, sadly, usually they occupy big cities and they get the headlines.

Mr. TURNER. In a previous hearing we had Betsy Martens, director of the Boulder Housing Partners. And she talked extensively about the cumbersomeness of the rent calculations for tenants, especially with regard to income set-asides and exclusions.

She suggested that the Congress pass a standard deduction for medical and other expenses. She gave a pretty eloquent description of having to account for receipts for a resident with a potassium deficiency, had to eat a significant amount of bananas, and she actually subsequently gave us a copy of the receipts that had to be counted in order to be able to determine the medical expenses that she was incurring.

She had suggested that there be almost, as in our income taxes, a standardized deduction. What is your view of that?

Mr. GUTZMANN. I think any model to simplify the rent calculation formula makes sense. That one is a good one. The FADA approach also includes just a different income-based model. Right now it is 30 percent of adjusted gross. This is the foldout, these are real steps to calculate rent. I am going to give this to you, too.

These are all the steps we have to do to calculate rent. First you disregard income with exclusions, deductions for medical; then you calculate income, then you calculate rent.

And Congress keeps passing laws that are worthy, that say let's not charge people rent on military income. That just passed the House Appropriations Committee.

Simplify it, but keep it affordable is our mantra. And I think you can do it with income-based——

Mr. TURNER. Just a second. We have seen that chart before. You may or may not be able to do this for us, but I am assuming that this is a calculation that your staff are going through. Might it be possible, as a supplement to this hearing, that you would provide us an estimate of the cost administratively to get through that?

Mr. GUTZMANN. I can tell you right now. But I will provide a supplement. I have 10 percent of my staff who do nothing but calculate rent. I have 220 staff; 10 percent of them do nothing but calculate rent, redetermine rent when income changes, recertify rent if people are still eligible to live in public housing.

I say probably nationwide, 10 percent of the housing authority's staff are in some way, shape, and form involved in income and rent calculations. We will get more information for you and try to quantify that.

The danger is, we keep getting our staff reduced and these burdens remain. The worst world for us is bad money and liberal rules. And this is a wonderfully affordable way of calculating rent, but it is very burdensome. And, as I mentioned, it is the case management approach. 1.2 million households, 1.2 million different rents.

It could be simple, it could be affordable; 25 percent of gross income, for instance, just that. That is one of the FADA models, just

say 25 percent of gross income, with maybe a few deductions for medical, so you really do not hurt your grandmother and my grandfather who lived in public housing, and the elderly who tell us, I have already worked my whole life, I have paid taxes, I do deserve a place to live affordably for my remaining years.

So 25 percent of gross income actually has about the same burden to households as 30 percent of adjusted gross, with all of those things to do to calculate the true rent. And that is a FADA proposal, in our rent reform package. It would mean great simplification.

There are ways to keep it affordable and simple, and that is what I would hope this committee also takes into account. We are having a hard time selling that because these are our friends, in the low-income housing advocacy world. They think if we get that freedom, we will rush to the marketplace, and that is not what we are going do. And so it is a hard sell within our own advocacy community to be given freedom from all of this rent burden.

Mr. TURNER. Mr. Moses, I will turn to you next.

Mr. MOSES. He is my friend, and I admire and respect him very much.

But H.R. 5443, has no standard Medicare deductions and many other good simplifications. And we believe that the tiered rent just gives you too many peaks and valleys that people—to fall in for residents, and it would be just more cumbersome to try to enact.

And H.R. 5443 rejects the tiered rent approach and keeps the standard deduction at 30 percent of income. So, you know, we support some things, but on this we say, this is what needs to be done.

Mr. TURNER. Mr. Riccio, by the one comment that you made, about the Dayton experience, which was a plus, I do not believe that they are moving toward community. There may be some additional issues that you might want to look at as to how they, with the Jobs-Plus program, operated outside of Moving-to-Work.

But in your written testimony, you make a comment that goes to actually some of my perceptions and experience in public housing in Dayton. And in going through how the various communities were successful with Jobs-Plus, you indicated where private rental housing was much more affordable; example, Dayton Jobs-Plus residents were quicker to move out than they were in other cities.

Dayton is a very affordable community. In fact, our companies that transfer people into Dayton say that the people coming into your community feel like they have won the housing Lotto, and people in Washington, DC, would be envious of what you can afford in Dayton with respect to housing and prices.

An experience that I had with our Public Housing Authority when I served as mayor, there was a neighborhood in which we had undertaken a mixed-income development. It was a distressed neighborhood. It also had a historic district overlay. It historically had varying levels of housing stocks. So it would lend itself very nicely to redevelopment as a mixed-income community.

It had a public housing facility that we would normally think of as projects-type public housing, that was the source of both crime and criminal activity, and was a high level of complaints for those who lived in the facility and those who lived around it. It was land that presented an opportunity for redevelopment.

So we approached the Public Housing Authority about this particular housing development, and noted their vacancy rate that they had in other units, and indicating that this would present an opportunity for mixed-use income, that we would like to seek for this site to be redeveloped. And the then-housing director said to me, I cannot do that. The people who are living in this facility are economically on the cusp of independence, and if I take this facility out of my inventory they will not move to my other units. They themselves can be economically independent and will move unto the neighborhood where all around them there was affordable housing that they could afford.

I, of course, said to him, gee, I thought that was the point. But he related to me, though, that the impact on the Public Housing Authority itself, on the overhead charge that they receive, would result in his impact on his budget for his administrative staff. The conclusion to the story is that site is now transitioning and is scheduled for redevelopment.

Many communities, though, given this paragraph, you really broke out the different experiences of communities. And I wondered if you would contrast for us what a community is facing that has affordable housing all around it, and easily accessible, and those that do not; because those individuals in that Dayton community would not readily have the ability if they were in a different market. And if you would just expound on that, I would appreciate it.

Mr. RICCIO. It relates to the issue of how do you judge success of an employment-focused or self-sufficiency-focused intervention in public housing? One way to think of it is in the way that public housing officials would be most inclined to think of it, is looking at the proportion of people employed, proportion of their tenants employed year to year, and the average earnings in the development year to year. Are those earnings going up, or are they staying flat?

Well, it is actually a little more complicated, because you may have a successful intervention that is giving people a leg up, really giving them a boost, and they move away. And that is more likely to happen if there is a soft housing market as in Dayton. So people can, in effect, take their earnings game with them outside. So it may look like year to year, well, we are not increasing employment, we are not increasing earnings, but in fact—and you cannot see it as an official—you may be having a very big effect on people's self sufficiency. It is a kind of a launching pad strategy.

The beauty of the Dayton situation is that someone comes in, gets help, moves out; another poor person comes in, can get some help, moves out and so on. Year to year, you may not see a big increase in average earnings, but you may in fact be almost like a factory if you are really effective, helping a lot of poor make the jump.

Now in another situation, St. Paul is a good contrast, there is much less affordable housing. So by helping the existing residents, you are increasing their earnings, and their earnings increase the overall average year to year, because those residents who gain in earnings are a little slow to move out. So, kind of lifting the average earnings and employment rates for the development as a whole.

Many people even in St. Paul do move out. We do have some stories of people buying homes from the savings that they accumulated with the rent reforms and so on.

But the main point is that, you know, that an intervention like this can function and have different kinds of effects on the development as a whole, in different communities, and both can be positive.

Mr. TURNER. Well, I want to thank all of you, not only for the time that you have taken in the preparation today, but in all of the work that you do that changes communities, impacts people's lives.

Each of you have reached out to try to accomplish more than just the tasks that are on your desk, and I greatly appreciate that. The expertise that you have lent to us is certainly great. The impact that you have on our learning curve by coming and describing to us both the bedrocks of some of the policy and the realities of how you are executing public housing really makes a difference in formulating policy here.

As promised, I want to give you an opportunity, there have been a number of topics that we have discussed, a number of questions that you may have anticipated that we have not asked. And so I would ask that if you have any items that you would like to add to the record, I am going to give you the opportunity now to give us some of that discussion.

But also you can submit items later after the hearing is over if you would like them to be considered for the record, included in the record.

I would start with Mr. Gutzmann, if you have any closing comments for us.

Mr. GUTZMANN. Again, Mr. Chairman, thank you so much for holding this hearing. It is really good to know that Members of Congress care and that they get this. I will submit additional written testimony, as I described, about the percentage of staff who do rent calculations.

I do think that the Moving-to-Work demonstration offers a good opportunity, and our advocate friends who are nervous about it actually cannot point to any bad things, and they only say, well, there is anecdotal success.

But these are coming in one community at a time. And the local communities that have had this freedom have preserved affordability and removed disincentives to employment. They say there is no data. Let's start collecting the data. Let's start showing that these demonstrations are productive, that we are advocates too. We are preserving affordability, we are helping people move up and out of poverty.

And, again, for the small slice of our housing stock, let's preserve it. And that has to happen with continued congressional appropriations. Thank you, Mr. Turner.

Mr. TURNER. Thank you. Mr. Moses.

Mr. MOSES. Thank you, Mr. Chairman, for having me here for these hearings. I think it was incredible for me to be in this surrounding, and around all of those great people.

I too will submit some other written comments later to the committee, but I would just like to say that I believe that as my col-

league has said, Mr. Gutzmann, let's get that information to see what Moving-to-Work has really done.

I have talked to many folks in many jurisdictions, and it is just not working. So I would like to see the statistics on what has really been accomplished and what is just really working before we increase any other housing authorities to go into this program. Thank you very kindly, sir.

Mr. RICCIO. Yes. I would like to make comments on two issues briefly. One is on the cost of the rent incentives and other aspects of Jobs-Plus. It is true that in St. Paul, as I mentioned to Mr. Gutzmann just before the hearing, they had a very extensive rent structure, particularly in the first year.

But they switched to a cheaper rent structure in subsequent years. We had cheaper rent incentives structures in subsequent years as well in other sites. So there are more expensive and less expensive ways to do rent reform. The more common way in the demonstration was to institute a set of flat rents in public housing with an income-based rent as a safety net for people who could not afford the flat rent.

And taking into consideration the cost of that flat rent structure, and the other services in Jobs-Plus, we estimated that the program, on average, cost $2,000 to $3,000 per person over a 4-year period, which when you compare to other Welfare-to-Work or employment interventions is really quite modest.

The other point I would like to make is that the issue of self-sufficiency in public housing is not just a public housing issue. It is a welfare system issue. It is an employment system, work force development system issue. Their clientele live in public housing, they have a responsibility to do something to help those people. Jobs-Plus tried to address the problem, understanding that those other systems had resources and had expertise that the public housing system did not have around employment, and built, I think, effective partnerships to deal with an employment issue within public housing.

So there are resources and there is expertise outside of public housing that has to be brought into the solution in addressing work questions within public housing.

Mr. TURNER. Mr. Roberts.

Mr. ROBERTS. A couple of points, quite quickly. One is this whole question of raising rents as incomes rise is terribly unfair. It imposes a 30 percent income tax surcharge on the poorest people in our country. And that is without payroll taxes or Medicare, Medicaid taxes, or income taxes, and earned income tax credits and the like. If you want public to work, do not give them the highest tax rates in the country.

Second is, resident leadership and involvement is very important in all of this. We are all fearful of what is going to happen when more powerful institutions decide our fates. And we are all much more willing to be part of a solution if we are on board from the beginning.

Our work works almost entirely through local nonprofit community organizations. And that has really made a big difference in setting the course for revitalization. And what residents want are mixed-income communities. They do not want forced displacement.

They don't want the breakdown in the social networks that keep neighborhoods together. But they want a place that works for everybody.

And finally we are increasingly working with PHAs to get them involved in the whole system of private finance. And there are a lot of great PHA partners who are already at the table in this world.

Mr. TURNER. Ms. Kennedy.

Ms. KENNEDY. Well, I want to reiterate my gratitude to you and Mr. Clay, not just for the nice words, which I will try to tell my teenager, but for doing this hard work. We are a dog-bites-man story. Nobody is interested. And, frankly, this good news needs to get out, because I think it affects all of the policy decisions that are being made both at the macrolevel and the appropriations level.

I have said more than I want to think about over the last 3 years, thank God for Ohio. You Members get it. You know that whole continuum of need. And you have a fabulous housing delivery system, one of the top three in the country in my mind.

But there are Members, because of your leadership limits, moving up to stay in financial services, who only know one piece of the continuum of need. They need to get the mortgage limit of Fannie and Freddie increased.

So we are going to need all of you and your understanding and knowledge of this to help deliver this good-news story of affordable housing. Let me leave you with one picture. Rosa Park's home is in Montgomery, AL, the first elderly, disabled, affordable housing in Montgomery, a result of 7 years of a nonprofit taking bank investments and working with tax credits.

But I also leave you with the idea that in Massachusetts, someone Barney Frank has known a long time, our chairman, introduced low-income housing tax credits and can no longer do that business, because private capital has moved in, and they pay subsidized prices in Massachusetts with what they are making in, say, Iowa.

And so he has moved on to the new markets tax credit. And the Louisiana bankers, even as we speak, are trying to invent one of these nonprofits that has so benefited Alabama and Massachusetts.

But the more you can help us get this good news out, the better off we will all be.

Mr. TURNER. Well, thank you. I certainly appreciate your reverence for Ohio.

Before we adjourn, I would like to thank all of you again for preparing today, and for what you do in this area. It is very important in impacting the lives of people, and in making certain that we have effective policies, and policies that we understand their impacts.

In the event that there may be additional questions from Members that we did not have time for today, or other Members who were unable to attend, I would like the record to remain open for 2 weeks for submitted questions and answers, if you would be so kind to answer them, if you you do have questions submitted to you; but also to remain open if there is anything in the next 2 weeks that you would like to add to your testimony, we would certainly be appreciative of receiving it.

With that, we thank you all. We stand adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned.]