CALIFORNIA HOUSING PARTNERSHIP CORPORATION

FEDERAL POLICY PROJECT

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FPP Partners

California Housing Authority Association (CHAA)

California Coalition for Rural Housing (CCRH)

Housing Authority Association of Southern California (HAASC)

NAHRO Northern and Southern California Chapters

NonProfit Housing Association of Northern California (NPH)

Northern California Nevada Executive Directors' Association

Southern California Association of Nonprofit Housing (SCANPH)

The San Diego Housing Federation

California Advocates Propose Major New Stimulus Spending on Affordable Homes

On November 18, fifty-five nonprofit and public housing agency leaders from across California gathered in Speaker Pelosi's San Francisco district to develop a bold plan to stimulate the economy through new federal investment in preserving and creating affordable homes for lower income Americans. What was remarkable about the gathering is the degree to which the diverse group found common ground: tenant advocates and nonprofit developers were clear about the need for substantial funds for public housing and voucher programs; housing authorities were clear about the need to address the impacts of foreclosures on low income renters and to make major new investments that plug the funding gaps in Low Income Housing Tax Credit and Section 202 and 811 developments in danger of infeasibility due to the implosion of the financial markets.

Investment in Affordable Housing as Economic Stimulus: The Evidence

The reason for the broad agreement among summit participants is a shared understanding that unless the federal government makes a major investment in affordable housing soon, hundreds of thousands of housing construction and even more construction-related jobs are at serious risk of vanishing at a time when we need them more than ever. According to economists at the National Association of Home Builders (NAHB), the development of a typical 100 unit multifamily apartment complex generates 116 jobs, $8,670,900 in income from all affected industries and $3,349,400 in tax revenue (including income, sales and property taxes and other assessments) to federal, state and local governments. A recent Oregon Housing Finance Agency study found that for every job created on site by creating or renovating affordable housing an additional 1.5 jobs are created off site. For every $1 invested in affordable housing, an additional $10-$15 of economic benefit was generated for the surrounding community.

Stimulus Scope and Timing

Congress recently held discussions on a second round of stimulus spending and that the Senate introduced a $100 billion proposal but the action died due to opposition from the Bush Administration. In recent days, President-Elect Obama has publicly stated his intent to sign into law a stimulus bill, perhaps on the order of $500 billion or more and has reached to request ideas. His advisors have indicated that he would like to sign this bill into law shortly after taking office on January 20th. That leaves it up to the rest of us to make the best case we can for investing in affordable rental housing as an effective means of stimulating our economy and getting our proposals in as quickly as possible. The following is one vision for what our new President and Congress should do:

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A. Capital Spending Proposals

These proposals are designed to simultaneously create jobs in the near term and to re-invest in the housing safety net for the country's lowest income households.

1. $5 billion for public housing preservation and revitalization jobs. Public Housing is the overlooked backbone of the nation's existing housing infrastructure. Rather than abandoning it after years of financial neglect, we should reinvest in public housing in the following ways: (1) Fund the preservation of existing public housing via construction work identified in HUD-approved five-year capital plans. These funds would be distributed to public housing authorities using the existing formula for public housing capital funds. (2) Fund high impact public housing revitalization projects able to start construction in 12 months. The importance of including this second category is to attract the interest of Members of Congress otherwise not inclined to support the significant expansion of public housing capital replacement/repair projects. These funds would be allocated via a HOPE VI method based on the merits and readiness of the proposed projects.

2. $5 billion in HOME to save affordable housing-related construction jobs. Give local governments the flexible financial tools needed to rescue the hundreds of ready-to-go affordable housing rental developments in danger of becoming infeasible due to the funding gaps created by the precipitous decline in prices paid for Low Income Housing Tax Credits. At the same time, take advantage of other ready-to-go construction of housing serving very low-income households, such as Section 202 and 811 eligible projects that await funding from these vastly oversubscribed but successful federal production programs. Key program elements would include: (1) Using TCAC per capita allocation formula to distribute HOME funds to Participating Jurisdictions (PJs), thereby reinforcing the link to LIHTC projects (smaller jurisdictions would apply through their state programs); (2) Funding committed to projects that fail to start construction in a timely manner will be recaptured to the national pool for re-distribution to other jurisdictions (similar to LIHTC national re-allocation pool); and (3) Applicants with substantial "Green" elements will receive a funding advantage.

B. Low Income Renter Protections / Homeless Prevention Proposals

Given the well-documented and severe consequences of the mortgage and financial markets crisis on low income renters, it is critical to support a broad range of measures that will ensure that low income renters pushed out of foreclosed homes and renters indirectly hurt by the increased demand for rental housing, receive assistance in the following ways.

1. $200 million in HOME funding to give local governments flexible resources to assist low-income renters evicted from foreclosed homes and to prevent and address homelessness. Funds could be used as loans or grants to pay for security deposits, moving expenses, first and last months' rent, and to create short-term rental assistance programs. Funding would be allocated based on a formula, taking into account the relative impact of the foreclosure crisis. Funds would have to be spent in a timely manner, not to exceed 12 months. Unspent funds would be recaptured in a national pool for re-allocation based on need.

2. $500 million in Emergency Public Housing Operating Funding to ensure that PHAs can continue to provide a safety net for lower income households. After being inadequately funded for more than eight years, many PHAs are being forced to make decisions to cut back their public housing programs at the very time they are needed most. This emergency funding will not constitute a permanent fix for this problem, which requires a more comprehensive rethinking of the public housing funding structure, but it will enable them to continue serving low-income residents in the short term.

3. $143 million in Emergency Administrative Housing Choice Voucher Fees for PHAs, which were short-funded by the FY2009 budget by this amount and are in danger of not being able to operate this critical safety net program.

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4. Funding for 200,000 Incremental Housing Choice Vouchers to address the documented impact of the mortgage foreclosure crisis on low income renters and of the economic recession, including layoffs and reduced salaries, caused by the collapse of the financial markets. The incremental vouchers would be allocated based on a formula that takes into account the greatest impact of the mortgage foreclosure crisis on communities. Additional administrative funding would be provided to receiving PHAs to ensure that they have staffing to administer the vouchers.

C. Mortgage Assistance Proposals

Despite all of the attention lavished on the foreclosure crisis, not enough has yet been done to help lower income homeowners caught in the vicious trap of sub-prime mortgages. At a minimum, we recommend the following measures:

1. A 180-day moratorium on all foreclosures of owner occupied properties is necessary to allow Congress and the new Administration time to provide better tools and incentives so that more loans can be modified, reducing the number of foreclosures.

2. Allow mortgage term renegotiation via bankruptcy until Congress and the new Administration have the time to review and modify existing mortgage programs.

3. Extend the current FHA "high cost limit" which is set to expire December 31st, 2008. This is critical to prevent further declines in homeownership in the many high cost communities in California and to allow existing inventory to be sold.

4. A new round of Neighborhood Stabilization Program funding to enable local governments, including Housing Authorities, to purchase foreclosed homes for the preservation of affordable rentals. This funding should be made available using a revised formula that focuses more narrowly on the number of foreclosures and loans in default and eliminates or reduces the weight given to "abandonment risk" which unfairly shifted funding away from communities in California.

D. Debt & Equity Market Liquidity Improvement Proposals

The group supported taking the strongest possible action to restore liquidity to the Tax Credit market and was strongly interested in the idea of making the Tax Credit refundable. However, after hearing about the strong opposition from investors to making the Credit refundable to developers, the group put this idea on hold and endorsed the following two alternative proposals in order of preference:

1. Refundable Low Income Housing Tax Credit for Investors with an exemption of the refund from federal taxes to enable them to collect the value of the Tax Credit in any year where they do not have adequate income to claim it on their tax returns. We believe this is the best means of encouraging corporations unsure of future income, back into investing in Tax Credits.

2. Five-year Carry Back of Tax Credits, effectively allowing investors to claim credits in ten years out of a fifteen year period starting with the year that is five years prior to the placed in service date and ending ten years later with the last year of credits. If making the Tax Credit refundable to investors as described above fails, then we support this proposal as the next best way of encouraging corporations unsure of future income back into purchasing Tax Credits.

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E. Debt Market Liquidity Improvement Proposals

1. Expand Community Reinvestment Act (CRA) requirements for investing in rental housing for financial institutions accepting Treasury investments. Even in the turmoil of the current markets, banks seeking to fulfill their CRA requirements are still offering better terms than are available in the general market. Loans or loan guarantees for affordable rental housing have historically low default rates, so there would be no significant risk in requiring additional loans or guarantees, especially for the creation and preservation of affordable rental housing. Requiring such additional loans in exchange for the billions of dollars that the Treasury is providing in equity to many of the larger banks would be a reasonable quid pro quo.

2. Standardize fees and strengthen the programs for Fannie Mae and Freddie Mac guarantees. The fees for Fannie and Freddie credit enhancement have grown over time, primarily over concerns about liquidity. The larger fees have increased the overall cost of the debt, which makes project financing more difficult. With the implicit Treasury guarantee made explicit through H.R. 3221, liquidity guarantees provided by Fannie and Freddie are unlikely to be exercised. Accordingly, these fees can now be dropped without creating additional risk to either Fannie or Freddie. In addition, Fannie and Freddie should be required to return to offering variable rate products. Requiring both firms to offer both fixed and variable rate financing at reasonable fees will provide stability in the market. It may be necessary to reduce capital reserve requirements specifically for these programs, just as their capital reserve requirements were reduced for single-family mortgage purchases.

3. Expand the use of Federal Home Loan Bank (FHLB) letters of credit (LOC). Members of the regional FHLBs can obtain letters of credit to “wrap” their own LOCs used to guarantee multifamily housing revenue bonds. This should have the advantage of tapping the public market to leverage additional funds, but has not been used frequently due to the fact that the LOC is treated the same as a loan from the FHLB to the member institution. This proposal would call for the amount debited against the member bank’s LOC be capped by the capital requirement for the loan, not the full cash amount, thus increasing the interest of member institutions in using the LOC program to fund multifamily housing loans since the funds will come from the general tax exempt bond market rather than the banks’ own funds.

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HOW DO I GET INVOLVED?

The Federal Policy Project is a coalition of California housing authorities, nonprofit housing developers and housing advocates working to increase understanding for the need for increased federal funding and legislation for affordable housing.

To learn more, please contact our Housing Policy Manager, Marilyn Wacks at *mwacks@chpc.net* or 415-433-6804x13.