

**STATEMENT OF  
THE NATIONAL ASSOCIATION OF HOME BUILDERS  
ON**

**H.R. 2895  
The National Affordable Housing Trust Fund Act of 2007**

July 19, 2007

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Introduction

The National Association of Home Builders (NAHB) appreciates the opportunity to submit this statement on the National Affordable Housing Trust Fund Act of 2007 (NAHTF). The trust fund established by this legislation would provide grants and other assistance to support the production, rehabilitation and preservation of affordable housing. NAHB agrees that the substantial unmet housing needs throughout the country justify additional federal attention. NAHB supports the creation of a national affordable housing trust fund that has:

- Income targeting requirements that allow grantees and grant recipients to meet the fullest range of critical housing needs;
- An appropriately comprehensive definition of eligible activities;
- Adequate standards of experience and capacity for grant recipients, along with results-focused allocation criteria, to ensure the best possible use of this valuable resource; and,
- Affordable housing stipulations that allow effective and efficient use of trust fund monies in conjunction with other federal and state housing programs;

In conjunction with legislation to revitalize the Federal Housing Administration, NAHB believes an appropriately structured national affordable housing trust fund can greatly improve housing conditions and opportunities in America's communities. We offer the following observations and recommendations.

The Need for the National Affordable Housing Trust Fund Act

The affordable housing needs in our country are well-documented. The Joint Center for Housing Studies of Harvard University *State of the Nation's Housing 2007* report states that "...housing affordability remains a pervasive problem. In just one year, the number of households with housing cost burdens in excess of 30 percent of income climbed by 2.3 million, hitting a record 37.3 million in 2005." The report cites increasingly heavier cost burdens across income levels:

- Nearly one-half of low-income households, a total of 8.2 million renters and 5 million homeowners, have severe cost burdens;
- Middle-income households increasingly face housing cost pressures, with 45 percent of the 2005 increase in severe cost burdens occurring among households in the middle two income quartiles;
- Among lower middle-income households, 12 percent of owners and six percent of renters were severely cost-burdened.

Cost burdens are not the only housing problem. The report cites overcrowding, especially in urban areas with a shortage of affordable housing, as a problem, in addition to persistent homelessness, stating that about 750,000 persons are homeless on any given night. With regard to federal budget outlays for housing programs, the report says that assistance reaches "...only about one-quarter of eligible renters and virtually no homeowners."

On the supply side, progress to halt the loss of affordable rental units has been minimal. This is not a surprise, given that less federal funding is being devoted to housing programs. The report points out that "housing assistance as a share of total nondefense discretionary spending dropped from 10.2 percent in 1998 to 7.7 percent in 2006."

### NAHB Affordable Housing Trust Fund Principles

#### *Appropriate Income Targeting*

As stated above, there is a diverse range of unmet housing needs. While it is essential that a national affordable housing trust fund address the country's most critical needs, NAHB believes the fund should focus on all of the significant housing gaps. In particular, the current federal rental housing programs are available only to those with incomes at or below 60 percent of the area median (AMI). A number of recent studies have shown that households in the 60-to-80 percent of AMI range have experienced a dramatic worsening in their capacity to afford safe and decent shelter.

NAHB also believes that a national affordable housing trust fund should provide meaningful support to expand homeownership opportunities, given the important social and economic benefits that derive from owning a home. Program targeting requirements should allow funds to address the full range of housing needs, for both rental and homeownership, as well as to meet diverse geographic needs such as those in rural and economically distressed areas where incomes are abnormally low.

#### *Effective and Efficient Use of Funds*

One thing that is clear is that, regardless of the ultimate sources of funding, a national affordable housing trust fund will be a limited resource that will fall short of the tremendous need and demand for such funds. For that reason, it is extremely important to ensure that the funds are used in the most efficient and effective manner. For this to happen, recipients of trust fund grants must have strong experience in producing affordable housing and a track record of successful initiatives. Recipients must also have the capacity to produce housing units in a cost-effective way and complete projects in a timely manner. It is essential that the program eligibility standards require such characteristics for eligible recipients. Furthermore, to avoid unnecessary diminishment of limited grant funds, the allocation/distribution system must be straight-forward and not encumbered by middlemen or other parties that do not add value to the process.

### *Level Playing Field in Awarding Grants*

A related aspect of effective and efficient use of funds is the degree to which grants are awarded to proposals that meet community housing needs. Under some federal programs, non-profit organizations are accorded advantages in the competition for funds. NAHB believes that criteria for awarding national affordable housing trust fund grants should be based on the merits of the proposed housing in meeting the an area's priority housing needs, not on the tax status of the sponsor. However, NAHB believes it is appropriate to base allocation criteria on the capacity of a sponsor to produce cost-effective, quality housing in a timely manner. Allocation criteria should also reflect how well proposals address housing needs in priority geographic areas, including rural areas. In addition, NAHB feels that allocation criteria should provide positive recognition for how effectively proposals leverage other public and private resources.

### *Compatibility with Other Federal and State Programs*

As stated earlier, it is likely that national affordable housing trust fund monies will be combined with resources of other federal and state programs rather than operating as a stand-alone program. Therefore, NAHB believes that it is essential that the trust fund program requirements are flexible enough to be compatible with other key housing programs.

### *Adequate Tracking and Reporting of Results*

NAHB believes it is extremely important that entities allocating national affordable housing trust fund grants are accountable for the results of those expenditures. Allocating entities should be required to establish systems to track the progress and results of the proposals receiving trust fund grants. Entities should report at least annually on the program status and results, as well as on the effectiveness of their allocation criteria and systems.

## NAHB Assessment of the National Affordable Housing Trust Fund Act of 2007

### *Matching Requirements*

NAHB supports the matching requirement provision included in H.R. 2895, while allowing for a waiver or reduction for recipients in fiscal distress. States and localities should leverage scarce federal resources to the maximum extent possible, as they have done successfully with the HOME, Community Development Block Grant, HOPE VI and the Section 108 Loan Guarantee programs.

### *Eligible Activities*

H.R. 2895 would permit the use of trust fund grants for construction of new housing; acquisition of real property; site preparation and improvement, including demolition; rehabilitation of existing housing; and provision of incentives to maintain

existing housing as affordable housing. The bill also allows the use of NAHTF monies for rental assistance for not more than 12 months. NAHB believes that use of NAHTF monies for rental assistance should be very limited; for example, helping families facing temporary needs, such as homeless prevention. NAHB believes that the focus of this program should be on production of new affordable housing, the preservation of existing affordable housing and moving low-income families into homeownership.

In addition, the bill also allows funding for downpayment assistance, closing cost assistance, and assistance for interest rate buy-downs as methods of assistance for ownership of single family homes. NAHB appreciates the breadth of eligible activities and also supports the bill's prohibition of the use of grant funds for political activities; advocacy; lobbying (directly or through other parties); counseling services; travel expenses; preparing or providing advice on tax returns; administrative (except under specific limitations); and outreach or other costs of recipients.

### *Eligible Recipients*

NAHB strongly believes that the experience and capacity standards for participating in NAHTF activities should be high. Eligible recipients should demonstrate the ability to successfully develop and/or manage affordable housing developments. The transactions to be funded by the NAHTF will be complex and will require expertise in other federal, state and local housing programs, which will be used in conjunction with the NAHTF. Under NAHTF, grant recipients must:

- Demonstrate the experience, ability and capacity (including financial capacity) to undertake, comply and manage the eligible activity;
- Demonstrate familiarity with the requirements of any other federal, state or local housing program that will be used in conjunction with Housing Trust Fund monies; and,
- Make assurances that it will comply with all Housing Trust Fund regulations and requirements.

NAHB believes these requirements would establish adequate eligibility standards to ensure that NAHTF resources are spent wisely and effectively. In addition, NAHB strongly supports the bill's explicit inclusion of for-profit companies as eligible grant recipients. For-profit companies account for the majority of housing production, including affordable housing production, and NAHB believes it is essential to open the proposed program to the strong housing production and management expertise and capacity that the for-profit sector offers.

### *Allocation Criteria*

Under the NAHTF, states and local jurisdictions would be required to develop allocation plans based on priority housing needs, which must include performance goals, benchmarks and timetables for conducting eligible activities. These allocation plans must

provide for geographic diversity among selected applicants and must set forth criteria that will be considered in the selection process. The criteria include:

- The merits of the proposed eligible activity, including the extent to which the activity addresses housing needs identified in the allocation plan;
- The ability of the applicant to obligate grant amounts and to undertake activities in a timely manner;
- Amount of assistance leveraged by the applicant from private and other non-federal sources;
- Extent of local assistance;
- Degree proposed activity serves households of mixed income;
- Extent of employment and other economic opportunities for low-income families in the area;
- Extent to which the applicant demonstrates ability to maintain units for affordable use;
- Extent to which area is experiencing an extremely low vacancy rate;
- Extent to which extremely old housing in the area exceeds 35 percent;
- Extent to which housing is accessible to people with disabilities;
- Extent to which housing will be located in proximity to public transportation and job opportunities;
- Extent to which housing serves census tracts in which the number of families below the poverty line is less than 20 percent; and,
- Extent to which housing complies with energy efficiency standards.

NAHB appreciates that the bill's allocation criteria focus on the affordability characteristics of the proposed housing and the housing expertise of the applicant rather than on extraneous issues such as the tax status of the sponsor. NAHB feels it is particularly important to include the first four items on the above list as primary determinants of competitive grant allocations.

#### *Rural Areas*

NAHB believes it is important to recognize the special housing needs of rural areas and appreciates that H.R. 2895, in Section 296(d), provides that any grantee that is a state or local jurisdiction that includes any rural areas use a portion of its NAHTF allocation for eligible activities located in rural areas that is proportionate to the identified need for such activities in rural areas. NAHB suggests that this provision could be strengthened, however, by revising Section 295(a)(2) to: "is based on priority housing needs, including priority housing needs in rural areas, as determined by the grantee..." or similar language that specifically mentions rural areas.

#### *Targeting Requirements*

NAHTF requires that all trust fund amounts be used to benefit families whose incomes do not exceed 80 percent of area median income (AMI). The majority of the funds, 75 percent, must serve households with incomes that do not exceed the higher of

30 percent of AMI and the poverty line, and not less than 30 percent of the funds must serve households with incomes that do not exceed the maximum eligibility for Supplemental Security Income (SSI).

NAHB believes that the majority of Low Income Housing Tax Credit (LIHTC) program developers will seek the use of NAHTF resources to help meet the extremely low-income targeting requirements increasingly included in state qualified allocation plans (QAPs). Currently, HOME funds and Affordable Housing Program (AHP) funds from the Federal Home Loan Banks are the major source of financing used to help meet these requirements. However, under the deep targeting requirements of NAHTF, because households are limited to paying 30 percent of their adjusted income for rent (which NAHB supports), rental income in most instances will be insufficient to cover a property's debt service and operating costs. Rental assistance and/or up-front capital subsidies will be needed to make such projects financially feasible. NAHB cautions that large portions of NAHTF funds will be needed for each project under the aggressive targeting requirements established in the bill.

In addition, NAHB believes that it will be very difficult to undertake homeownership activities with the targeting requirements provided in H.R. 2895. From a practical perspective, only 25 percent of the funds will be available for homeownership, as these funds may serve households with incomes up to 80 percent of AMI. NAHB wholeheartedly supports increasing homeownership opportunities for low-income households. However, substantial subsidy would be needed to assist home purchases by extremely low-income households. And beyond that, such households are not likely to have the resources to pay for on-going maintenance and replacement of major items such as roofs and appliances, or annual costs such as property taxes. NAHB is concerned that such households would be at great risk of losing their homes in the initial years after purchase. NAHB believes that homeownership assistance should be focused on the families with the greatest ability to maintain their owner status over the long-term.

Given the issues stated above, NAHB believes that the targeting requirements as proposed in H.R. 2895 should be revised to ensure the most efficient utilization of trust funds in addressing the feasibility of rental projects serving extremely low-income households, allowing the development of workforce housing for households with incomes between 60 and 80 percent of AMI, and broadening support for homeownership initiatives. NAHB recommends that all of the NAHTF resources serve low-income households (80 percent of AMI or below) but that the current targeting formula be revised so that 50 percent of the funds is reserved for households with incomes not exceeding 50 percent of AMI and, of that, 30 percent is targeted to households with incomes at 30 percent of AMI or below.

#### *Tracking and Reporting Requirements*

NAHB supports the requirements contained in H.R. 2895.

## *Affordable Housing Requirements*

Compatibility with other Federal Housing Programs: NAHB strongly recommends that the affordable housing requirements of the NAHTF be as compatible as possible with other federal housing programs, particularly the LIHTC program. The vast majority of new affordable housing units delivered each year are produced under the LIHTC program, and many developers also rely on the LIHTC program for rehabilitation of existing properties.

Members of Congress on the House Ways and Means Committee and the House Financial Services Committee have been examining reforms to allow greater and more effective use of the LIHTC with HUD programs, such as FHA mortgage insurance. Currently, there are many conflicting and duplicative requirements that increase the costs of production and management and diminish the resources available for housing. NAHB, as well as many other industry stakeholders, have submitted recommendations to these Committees and believe it would be useful to view these suggestions within the context of this proposed new program as well. The following are some relevant examples:

- One agency should be designated to conduct the subsidy layering review;
- The unit inspection process should not be duplicative (the inspection streamlining provisions in H.R. 1851, The Section 8 Voucher Reform Act of 2007, are widely supported by industry groups and tenant advocates); and,
- One compliance report per property should be acceptable for all monitoring agencies.

Maximum Rents and Tenant Contribution to Rent: NAHB supports the rent setting provision in H.R. 2895 and appreciates that the bill distinguishes the maximum rent from the tenant contribution to rent, the latter of which is set at 30 percent of adjusted income. NAHB also supports the provision in the bill that prohibits discrimination against voucher holders.

Visitability: To be considered “affordable housing” under the bill, the units to be assisted with NAHTF funds must be subject to certain legally binding commitments, one of which is to meet such basic visitability standards as the HUD Secretary shall provide by regulation. NAHB does not support this provision. Whether a unit meets visitability or accessibility standards is not among the definitions of “affordable” in any other federal government program. Further, while HUD encourages public housing authorities (PHAs) and their partners to include visitability standards in their HOPE VI projects, there are no requirements to do so and HUD’s guidance is minimal. It could take HUD many years to develop regulations related to visitability, which could prevent grantees from using NAHTF resources for homeownership initiatives in the meantime.

NAHB believes that any visitability provisions should be voluntary on the part of the developer. A more appropriate approach to encouraging visitability for projects that use NAHTF resources is to include it as one of the selection criterion to consider when

grantees are determining how to allocate their funds. H.R. 2895 has such a provision in Section 295(c)(2)(B)(x).

Duration of Use: H.R. 2895 requires that units assisted with NAHTF resources be subject to all of the affordability requirements for 50 years. No other federal housing program has a 50-year affordability period. NAHB believes it would be more appropriate to set the affordability period to 30 years, which is the same as for the LIHTC program (and is 10 years longer than that for the HOME program).

Owner-occupied Housing: NAHB supports the provisions in H.R. 2895 that restrict the use of NAHTF money for homeownership assistance to first-time homebuyers, set purchase price limits for the home (which are the same as for the HOME program) and require potential homebuyers to complete a program of counseling with respect to the responsibilities and financial management involved in homeownership.

### *Definitions*

NAHB notes that Section 296(f)(B), Forms of Assistance, permits the use of NAHTF money for downpayment assistance, closing cost assistance and assistance for interest rate buy-downs. However, these forms of assistance are not included under Section 299, Definitions. NAHB recommends that downpayment assistance, closing cost assistance and assistance for interest rate buy-downs be included as eligible activities in Section 299 (1).

### Conclusion

NAHB commends the Committee's efforts to marshal additional resources for affordable housing through the establishment of a national housing trust fund and believes that it will play a significant role in addressing the nation's urgent and unmet housing needs. NAHB is particularly appreciative that the bill addresses NAHB's priorities related to effective and efficient use of trust fund monies in conjunction with other federal and state housing programs; an appropriately comprehensive definition of eligible activities; adequate standards of experience and capacity for grant recipients; and, results-focused allocation criteria.

NAHB is concerned that the targeting requirements do not address the full range of unmet housing needs, particularly for working households not currently eligible for federal assistance, as well as for low-income potential first-time homebuyers. We urge the Committee to give consideration to revisions to the targeting requirements to meet these needs. NAHB looks forward to working with the Committee on this very important legislation.