

New England Housing Network Federal Budget Priorities for FY 2009

May 2008

The Administration's proposed budget for FY09 would provide \$39.1 billion for the Department of Housing and Urban Development, nearly \$1.1 billion (2.6 percent) less than Congress allocated in FY08, adjusted for inflation. However, the President's budget for HUD is significantly worse than this comparison suggests. This is because the FY08 funding law included a \$1.3 billion budgetary offset that will not be available in FY09 (and is not assumed in the President's budget). Once the loss of this offset is taken into account, the President's FY09 HUD budget drops to a level that is \$2.3 billion (or 5.6 percent) below the FY08 level, adjusted for inflation.

The FY09 budget resolutions passed by the House and Senate provide for a \$9 billion increase, on average, in total funding for non-security discretionary programs (a category that includes most housing and community development programs), in comparison to the FY08 funding level, adjusted for inflation. This is \$23 billion above the President's proposed level for spending on non-security programs in FY09.

Housing Choice Voucher Program (Section 8)

Established thirty-four years ago, the Section 8 Housing Choice Voucher program is the nation's largest and one of its most successful low-income housing assistance programs. Nationally, it helps over two million households to rent and, increasingly, own modest housing in the private market. Over 138,000 New England households currently receive tenant-based assistance. The vast majority are senior citizens, people with disabilities, and working families with children. Throughout the program's history it has enjoyed broad, bi-partisan support.

The New England Housing Network calls on Congress to fully fund tenant-based rental assistance, so that low-income families are not displaced or put at-risk of homelessness.

The President requests a total of \$15.9 billion for all tenant-based rental assistance programs in FY09, \$510 million less than the FY 08 appropriation. This amount is insufficient to cover inflation in rent and utility costs, as well as the increased number of vouchers that will require renewal in 2009. There is no doubt that the Administration's insufficient budget request will lead to further voucher losses.

Of the proposed amount, \$14.2 billion is for voucher contract renewals, a \$497 million decrease from the FY 08 funding level. The Center on Budget and Policy Priorities estimates that \$15.5 billion will be required to renew all vouchers in use in 2009, which means that the President has requested \$1.3 billion less than what will be needed to renew existing vouchers.

This under-funding would result in the loss of at least 100,000 vouchers in use by low-income families during the next fiscal year. Moreover, this figure may substantially understate the size of the potential cut, since the Administration's budget includes a proposal to sharply cut back housing agency reserves and to use large reserve amounts to cover a portion of 2009 voucher renewals. If Congress rejects the proposed deep cut in reserves without providing additional funds to supplement the President's request, nearly 200,000 vouchers in use will be eliminated.

Of the overall \$15.9 billion requested by the President, \$1.4 billion is for administrative fees. Although this represents a \$49 million increase over FY 08, the proposed funding level is unlikely to be sufficient to avoid a prorated cut. The Network supports continuation of the policy, first proposed in the Administration's 2008 budget and enacted by Congress for 2008, under which agencies earn administrative fees for each voucher leased based on a formula determined by HUD. In addition, \$48 million is allocated for the Family Self-Sufficiency Program, which the Network also supports.

It is absolutely critical that the FY 09 budget continue to use the "recent-cost" funding formula adopted by Congress for Section 8 for 2007 and 2008.

From 2004 to 2006, HUD used a "budget-based" funding formula, which used outdated and increasingly unreliable housing cost data as the basis for determining an individual housing authority's voucher renewal needs. This misguided formula, taken together with several other factors, resulted in the loss of approximately 150,000 vouchers nationwide, as well as general funding instability for the program, during this period.

The Administration's FY 09 budget request continues to use an inefficient method for allocating voucher renewal funding, again proposing to distribute funds based on outdated information. This policy would deepen funding shortfalls among agencies even beyond those caused by the budget's inadequate funding levels alone. It would also punish high-performing agencies that succeed in assisting more low-income families in 2008.

The Network is extremely pleased that Congress has consistently rejected HUD's ill-conceived block-grant style funding proposals over the last two years. Instead, Congress has allocated funds based on actual voucher usage and costs during the most recent 12-month period. This has allowed for the restoration of about two-thirds of the vouchers lost nationwide from 2004 to 2006. We are also encouraged by House passage of H.R. 1851, the Section Eight Voucher Reform Act (SEVRA), and introduction of S. 2684, its Senate companion, which would fix the voucher funding formula permanently while providing other welcome programmatic reforms (see below). It is our hope that this legislation will be enacted before FY 09 begins. If not, we urge Congress to continue fixing the formula on an annual basis through the HUD appropriation.

In order to restore the vouchers lost over the last several years due to HUD's misdirected funding formula – and to effect the first major increase in the number of vouchers in six years – the Network strongly urges Congress to include additional funding for 100,000 new, incremental vouchers in FY 09.

Tenant protection vouchers are funded at \$150 million in the President's budget, down from \$200 million appropriated in FY08. These vouchers help tenants avoid displacement when their subsidized housing is converted to market rate, or help them relocate when their subsidized homes are demolished. HUD continues to assert that the funds can only be used for units under lease. Historically, tenant protection vouchers have been funded for all units leaving the affordable housing inventory, not just those with current leases. This policy, as interpreted and implemented by HUD, has led to the loss of housing assistance to communities, since not all units have current leases. The Network urges Congress to include language that tenant protection vouchers must replace all units leaving the affordable housing inventory, not just those units under lease.

Project-based rental assistance contract renewals are funded at \$7.16 billion in the President's proposed FY09 HUD budget, including a \$400 million advance appropriation. Although this represents more than a \$1 billion increase over the FY 2008 funding level, it is insufficient to meet all contract renewal needs. The discovery during FY 2008 of major shortfalls, and HUD's prolonged unwillingness to support a complete solution to the problem, are unacceptable. Virtually every serious observer predicts administrative chaos and increased owner opt-outs after October 1, unless an increase of at least \$2.4 billion is provided through a supplemental FY08 appropriation. Further, the problem will be repeated in FY 09 unless HUD provides Congress with a full accounting of renewal needs on which to base its annual appropriation.

Last year, the Network expressed concern that the President's request was inadequate and urged Congress to seek additional data from HUD to ensure the renewal of all Section 8 project-based contracts. HUD's failure to produce accurate estimates for the nation's project-based renewal needs created serious and unfortunate consequences. Now that we have seen the results materialize, it is essential to solve this problem once and for all, and to recognize that a solution will have no adverse affect whatsoever on the federal deficit, because it will not change the growth of federal outlays. Continuation of existing project-based Section 8 contracts as they expire is an essential element of the HUD budget. Congress has repeatedly expressed its commitment to preserve these affordable homes. The Network requests the full amount of funding necessary to renew all project-based contracts, based on heightened due diligence as to actual needs.

CDBG and HOME

The Community Development Block Grant (CDBG) and HOME programs are valuable resources for cities and states struggling to ensure opportunities for residents to live in safe and affordable housing. These programs have funded projects that improve the quality of life across New England, including rental housing, homeownership, infrastructure improvement, and economic development.

The President's FY09 proposed budget cut of over \$659 million will have serious consequences for lower income communities throughout New England that are struggling with increasingly

high foreclosure rates. We support efforts to increase funding for CDBG so that cities and towns in partnership with community development corporations (CDCs) and other nonprofits can acquire foreclosed properties and provide assistance to homeowners and renters.

The Network remains concerned about any changes to the allocation formula that would negatively impact Northeast cities that have the nation's oldest housing stock. We request Congressional support to maintain level funding of CDBG for ongoing programs and ensure that the CDBG formula is not revised at the expense of New England cities and states. We also support an additional special allocation of funds to help local communities address the impact of foreclosures. We also continue to oppose the elimination of the Brownfield Program, Economic Development Initiative, Rural Housing and Economic Development Program and Section 108 Loan Guarantee program.

The Network continues to support restoration of funding for a flexible and effective HOME program. The program has a proven track record of success having financed more than 1 million homes. Adjusting for inflation, the HOME program would require \$2.4 billion just to remain level-funded. The President's budget would increase HOME funding from \$1.7 billion to \$1.9 billion including \$1.8 billion for formula grants, \$50 million for the American Dream Downpayment Initiative, and \$65 million for housing counseling.

The Network also continues to support raising the state minimum for the HOME program from \$3 million to \$5 million. We also support increasing the percentage of total HOME funds that can be use for the payment of CHDO operating expenses from 5% to 10%.

Housing for Elderly/People with Disabilities

HUD's Section 202 and 811 programs finance the development and subsidize the operations of non-profit housing that includes supportive services for low-income seniors and disabled households. Both programs have been effective and efficient, and ensure the long-term preservation of low-income housing through the requirement for non-profit ownership.

The Administration's budget proposes \$540 million for Section 202 Housing for the Elderly program, \$195 million less than last year or a 26.5% reduction. The budget proposes to cut the Section 811 Housing for Persons with Disabilities program to \$160 million, a decrease of \$77 million (32%).

The Budget proposes a very small demonstration program which would use \$15 million under the Section 202 program and \$10 million under the Section 811 program to increase production through developments financed with Low Income Housing Tax Credits.

The Network supports restoring funding to at least the FY08 levels and incorporating an expanded Section 202/811-LIHTC demonstration program.

Homelessness

McKinney Vento Homeless Assistance Programs The McKinney-Vento homeless assistance programs fund rental housing, emergency assistance, and homelessness prevention services. The proposed FY09 budget increases funding over last year for McKinney-Vento programs by \$50 million, to \$1.5 billion. This proposal is insufficient to meet the emergency needs of the many families, veterans, individuals, and youth experiencing homelessness every night, and it leaves little funding for the advancement of solution- focused programs. HUD estimates that the cost of renewals alone will be approximately \$1.5 billion.

The New England Housing Network recommends an appropriation of \$2 billion for McKinney-Vento homeless assistance programs. Such a funding level would allow for the creation of 16,500 new units of permanent supportive housing – allowing localities to get back on track in their efforts to create 150,000 such units within ten years – while simultaneously funding all expiring permanent housing renewals and providing critical resources for families and individuals who do not meet the definition of chronic homelessness.

Federal Policy to Prevent and End Homelessness Among Veterans (HUD-VASH) A joint program of HUD and Veterans Affairs (VA), the HUD-VASH program provides permanent housing and ongoing treatment services to the harder-to-serve homeless mentally ill veterans and those suffering from substance abuse disorders. The VA screens homeless veterans for program eligibility and provides outreach, clinical care and ongoing case management services to enrollees. HUD allocates rental subsidies from its Section 8 Housing Choice Voucher program to the VA, which then distributes them to enrollees. Rigorous evaluation indicates that this program and the approach of providing permanent housing with case management and other services significantly reduces days of homelessness for veterans plagued by serious mental illness and substance abuse disorders.

The New England Housing Network urges Congress to provide \$75 million for Section 8 vouchers for the HUD-VASH program in fiscal year 2009, enough to house approximately 10,000 veterans.

The Runaway and Homeless Youth Act (RHYA), the Education for Homeless Children and Youth (EHCY) program, and Grants for the Benefit of Homeless Individuals (GBHI) program. These programs support community organizations, school districts, and public agencies in their efforts to help homeless youth and the chronically homeless in rural, suburban, and urban communities around the country. In addition to the benefits that these programs offer to the individuals served, they are also cost-effective in comparison with public custodial care through the justice system.

The New England Housing Network supports RHYA programs at a funding level of \$140 million (\$27 million over the FY08 level), and EHCY programs at a funding level of \$70 million (\$6 million over the FY08 level), and the GBHI program, targeted to services in permanent supportive housing, at a funding level of \$124 million (\$70 million over the FY08 level).

Public Housing

New England has approximately 75,000 public housing units which need ongoing funding for operations, repairs, modernization, and resident services. The region's public housing stock is generally older than in other parts of the country, placing it at greater risk of deterioration without reinvestment. This resource is extremely important because it provides permanent housing for some of the region's lowest income families, elders, and people with disabilities who would not otherwise afford to rent apartments in the private market.

Operating Subsidies: The President's proposed FY09 budget includes \$4.3 billion for the public housing operating fund, which would provide just 84 cents for each dollar of operating costs. The New England Network supports fully funding the operating fund at \$5.2 billion.

Capital Grants: The President's proposed FY09 budget cuts the public housing capital fund by \$400 million. The New England Housing Network supports a funding request of \$3.5 billion.

HOPE VI: The President has once again proposed to eliminate the HOPE VI program. While this is no surprise, given the ever decreasing commitment of dollars to the program during this decade (from a high of \$575 million in FY00 to a low of \$100 million in FY07), its elimination illustrates the Administration's lack of commitment to public housing. The Network supports a FY09 funding level of \$600 million for the HOPE VI program (in addition to retention of the \$100 million appropriated to HOPE VI in FY08).

Rural Housing

The Administration's FY09 budget would decimate USDA's rural housing programs that are vital resources in rural areas of New England as well as throughout rural America. As in last year's budget, the Administration would eliminate the Section 502 direct homeownership loans, Section 515 rental housing loans, and USDA's Rural Community Development Initiative.

This year the Administration would also eliminate Section 523 self-help technical assistance, rental housing preservation, and Section 514/516 farmworker housing loans and grants as well as cancel \$20 million in rental assistance. In other words, nine out of fifteen USDA Rural Development programs are proposed for elimination. The programs that the Administration proposes to keep are largely loan guarantee programs as opposed to direct loan and grant programs. These guarantee programs are far less effective in meeting the serious housing needs faced by rural communities. The FY09 HUD budget also proposes elimination of HUD's Rural Housing & Economic Development Initiative. The Network strongly opposes the elimination of both USDA RD and HUD funding for rural housing.

USDA programs that have been utilized extensively in rural New England include the following:

The *USDA family housing program (Section 515)* is frequently the only option for providing affordable apartments in rural areas. Funds are used to create new housing units and to repair the

existing portfolio. The program has a thirty-year history of success, but nevertheless is slated for elimination under the President's FY09 budget. In 1994 the program was funded at \$540 million, but last year the funding level was only \$70 million. The increase in the rental housing guarantee loans in the President's budget in no way compensates for the loss of 515 funds because the programs serve different populations. The Network strongly opposes the elimination of funding for the 515 program and supports a funding level of at least \$150 million which is necessary to cover minimal essential activities.

Rental assistance through the *Rural Rental Assistance Program (Section 521)* usually accompanies Section 515 loans and is critical for low-income affordability, building maintenance, and capital necessary for preserving existing projects as affordable rentals. In FY06, rental assistance contracts were for four years and were subsequently reduced to two and then one year contracts. The Administration is proposing one year contracts in FY09. The Network supports restoration of multi-year contracts.

The Rural Rental Assistance Program budget has a large proposed increase, from \$482 million to \$987 million, but this increase in budget authority is needed simply to re-fund existing multi-year contracts whose terms have gradually been reduced to one year. This necessary increase represents no real increase in new commitments or outlays, beyond normal inflation. Further, the administration proposes to use \$100 million of this amount to convert project-based rental assistance contracts to a "pilot voucher program". This is a major concern, because rental assistance is critical for low-income affordability, proper maintenance of the buildings, and additional capital necessary for preserving the existing projects as affordable rentals.

Funding for rental assistance has already been cut from \$653 million in FY06 to \$482 million in FY 2008, for one year rental assistance contracts. These cuts have essentially meant that there is no rental assistance available for new rental developments. In extremely low income rural areas the result is that development of new rental housing for low income households is not financially feasible. The Network supports restoration of funding to a meaningful level of \$897 million with multi-year contracts, plus \$100 million for a rental assistance pilot program.

Homeownership is the norm in most rural communities where rental units are scarce and production of new apartments is difficult due to lack of economy of scale. The *Single Family Direct Loan Program (Section 502)* is a proven vehicle for efficiently housing rural families with low incomes. With limited employment opportunities, homeownership provides the primary mechanism for wealth generation in rural areas. The Administration's FY09 budget once again proposes to eliminate this important program and replace it with more funding in the Single Family Guarantee Program, a program that is not nearly as effective in facilitating homeownership opportunities for lower income rural households. The Network strongly opposes elimination of this important program and recommends an appropriation of \$1.5 billion.

Although the *Farm Labor Housing 514/516 programs* are quite small they have been used successfully in rural New England to meet a need that is important to the economic base in some of the region's rural areas. The Network opposes elimination of these programs and supports \$50 million in funding for 514 and another \$50 million for 516.

Preservation of existing subsidized housing stock is an important issue in both rural and urban areas in New England. More 515 rental units are being lost through prepayment than are being created. Since 2001, 1,125 units in the USDA RD portfolio in New England have been lost through prepayment and/or conversion. Nationally, nearly 11,000 units were prepaid during the same time period.

Preservation initiatives, including Section 542 Vouchers (Preservation and Prepayment), the Preservation Revolving Loan Fund, and the Preservation demonstration Program, have been eliminated in the Administration's budget, supposedly because new authorizing legislation has not yet been passed. However, the USDA has made good use of these resources within existing authority. Without preservation funding, there is only more incentive for owners to exit the program.

The Network opposes elimination of RD's Rural Preservation Demonstration Program and supports a \$50 million appropriation to be split between the demonstration program, Section 542 preservation vouchers and the Rental Preservation Revolving Loan Fund, with at least \$6 million going to the revolving loan fund which was the amount available for that fund in 2006 and 2007.

Housing Counseling

Housing counseling is a critical tool in assisting low and moderate income households to become successful homeowners. Under HUD's Housing Counseling Program, local non-profit organizations provide a variety of services to low income homebuyers, including budget and credit counseling, educational workshops, foreclosure prevention, and post-purchase counseling. In addition, national and regional intermediaries assist in administering and monitoring the program on a broad level.

The Network supports the President's proposed request of \$65 million for the Housing Counseling Program, which represents a \$15 million increase from FY08.

Lead Paint Hazard Reduction and Healthy Homes Programs

The appropriation for lead paint hazard reduction decreased since FY04 and has not increased substantially for fifteen years. In FY04 the appropriation was \$174 million. The proposed level for FY09 is \$116 million. At this funding level it will take a couple of hundred years for the country to deal with the problem of lead paint in its housing stock.

New England, with its aging housing stock, is particularly in need of resources to eliminate lead hazards. On average, 58% of the region's housing stock was built before 1970 as compared to

46% nationally. The Administration's proposal to once again reduce funding for the Office of Healthy Homes and Lead Hazard Control by one-third compared to the FY04 level will have a significant impact on the region's ability to adequately address this serious health threat.

The Network supports a return to the FY04 funding level of \$174 million. In FY 2008, Congress targeted \$48 million for competitive grants of at least \$2 million for the cities with the worst lead poisoning problems. The Administration's FY09 request proposes to eliminate these targeted grants. The Network supports maintenance of these targeted grants.

For a number of years HUD funded Healthy Homes Demonstration Grants. A couple of New England programs have received this funding for asthma interventions and it is clear that the activities had measurably positive benefits. Therefore, the Network suggests that Healthy Homes activities should become a core program at HUD with funding similar to that available for lead Hazard Control grants. We support the Reed/Hagel Healthy Housing Council Act of 2008 as a first step towards such a funding recommendation.

Community Services Block Grant (CSBG)

The Community Service Block Grant (CSBG) was funded at \$653.8 million in FY 08. The President's FY 09 budget proposal once again calls for its elimination. The Network is requesting that CSBG be funded at no less than \$700 million, which is comparable to the final FY2002 appropriation with proper adjustment for inflation.

The CSBG statute establishes the grass-roots governing structure of local Community Action Agencies (CAAs); it funds their core operations, and supports their unique local activities, which include providing access to affordable housing, health care, employment support, energy assistance and preventive or crisis intervention. They fight poverty by investing in self-sufficiency for low-income individuals, families and communities. The 1,100 CAAs are found in 99% of all counties nationwide.

The demand for CSBG services has never been greater. During this time of economic uncertainty, more families are turning to CAAs to meet their basic needs. CSBG helps strengthen communities by assisting low-income individuals and families to become self-sufficient. Community Action Agency programs serve more than 15 million individuals in 6 million low-income families yearly, including approximately four million children, 1.2 million people with disabilities, and almost 2.8 million people without health insurance. CSBG reaches as many as 22% of people in poverty and millions more with incomes at or below 125% of the Poverty Guideline (\$26,500 for a family of 4 in 2008). Nearly half these families are working while they participate in CAA programs.

CSBG leverages almost \$10 billion in other federal, state, local and private resources. Zeroing out the CSBG eliminates the funding that allows CAAs to leverage new funding, engage local partners, and create projects that address the specific causes of poverty in their communities.

New England Housing Network Federal Legislative Priorities for 2008

May 2008

Foreclosure Mitigation and Anti-Predatory Mortgage Lending Legislation

The rising rate of mortgage delinquencies and foreclosures and their spillover into national credit markets has led to multiple bills to assist troubled borrowers and their displaced tenants, to help states and localities with large numbers of foreclosed properties, and to reform Government Sponsored Enterprises (Fannie Mae and Freddie Mac), the Federal Housing Administration (FHA), and private lending practices. The New England Network strongly supports legislation which will address all of these concerns. Key elements should include the following:

1. *Help At-Risk Owners to Refinance into Affordable Loans* Create a temporary FHA program to insure \$300 billion in refinance loans for homeowners at risk of foreclosure in cases where current holders of the mortgages agree to reduce the outstanding principal as needed and waive prepayment/delinquency fees.

H.R. 5830, the FHA Housing Stabilization and Homeownership Retention Act of 2008, introduced by Representative Frank on April 18, 2008 would authorize a two year program for refinancing mortgages originated before December 31, 2007 whose borrowers currently have mortgage debt to income ratios above 35%. It would require that the refinanced loans be fixed rate with a loan to value ratio no higher than 90% of current appraised value, including mortgage insurance premiums, origination fee and closing costs. It uses risk-based insurance premiums and imposes exit fees and profit-sharing requirements that borrowers would pay upon resale to keep the insurance fund sound. The program would be designed and monitored by an Oversight Board with representatives from HUD, Treasury and the Federal Reserve Board. The Federal Reserve would also be required to complete a study within 60 days on advisability of creating an auction or other bulk refinancing mechanism so that the FHA to process the new loans more quickly and efficiently.

2. *Fund Neighborhood Stabilization* Provide funding to states and localities with high numbers of delinquent and foreclosed properties so they can manage and dispose of foreclosed residential properties in a way that both provides affordable housing and strengthens neighborhoods.

We support the funding framework outlined in H.R. 5818, recently approved by the House Financial Services Committee, which provides \$15 billion for this purpose, half in the form of grants. This funding is critically needed so that states, cities and counties can purchase, rehab and sell foreclosed properties to homeowners or responsible rental managers. We are concerned, however, about proposed requirements that at least half of the funding assist very low income households (including one half of that for extremely low income households). We support those goals, but believe they can't be achieved unless Congress provides new Section 8 assistance to

bring rents to the levels extremely low income households can afford.

3. *Increase Funding for Foreclosure Counseling* Foreclosure counseling agencies are critical to foreclosure prevention and mitigation efforts, providing critical outreach to at-risk borrowers and the expertise needed to help borrowers understand their options and negotiate solutions. Congress approved a special appropriation of \$180 million for housing counseling agencies as part of the FY2008 HUD budget approved in December 2007 but additional funding is needed now. A number of bills include language to appropriate another \$180 to \$200 million this year. H. 3221 provides a \$180 million increase and H.R. 5830 proposes a \$200 million increase; both bills include set asides specifically to enable counseling agencies to pay for legal assistance related to foreclosure mitigation. The Network would like to ensure that some counseling money is available in every state.

4. *Support GSE Reform and Establishment of a National Housing Trust* We support GSE reform legislation to assist in the foreclosure crisis by raising current caps on loan purchases by the GSEs and by providing new funding for affordable housing programs. H.R. 1427, passed by the House in May 2007, would establish new regulatory guidelines for Fannie Mae, Freddie Mac and the Federal Home Loan Bank system and also raise an estimated \$500 million a year for the proposed National Housing Trust Fund by requiring the GSEs to annually contribute funds equal to 1.2 basis points of their prior year average mortgage portfolio. Companion legislation on the Senate side has not moved forward yet.

5. *Protect Tenants in Foreclosed Properties from Displacement* When a multi-unit property is foreclosed, lenders generally require tenants to leave. The current foreclosure crisis has led to significant displacement of low income renters, especially in New England, where 2-4 family properties are more common. (The National Low Income Housing Coalition estimates renters make up about 40% of all households displaced by foreclosures, but 50% or more in Massachusetts, Connecticut and Rhode Island.) Several bills have been introduced, including H.R. 5818 and H.R. 3952 (passed by House), with language to protect bona fide tenants in foreclosed properties from displacement by requiring that they be given a minimum notice period (90 days) before being required to vacate and by allowing those with leases to remain until the end of their lease (or six months if earlier). H.5818 would apply only to properties assisted under the proposed Neighborhood Stabilization Act, however.

To fill the gap pending the adoption of legislative protections, we support the National Low Income Housing Coalition's call for a special new appropriation of \$300 million for FEMA's Emergency Food and Shelter Program specifically to help displaced tenants, as well as owners, at risk of homelessness because they lack the funds to pay moving costs, security deposits, etc. It would also be advisable to include language to help homeowners at risk of foreclosure in certain circumstances.

6. *Temporarily Increase the National Cap on Tax-exempt Bond Authority* by \$10 billion a year and also temporarily allow mortgage revenue bond authority to be used to refinance at-risk borrowers into affordable loans.

Increasing the cap and making refinancings an eligible activity would expand borrower options. The Senate approved this as part of H.R. 3221 (the Dodd/Shelby bill) on April 10th, providing a one year increase of just over \$10 billion in the cap and making refinancings of subprime loans issued between 2002-2007 an eligible mortgage revenue bond activity. Authorizing an FHA insurance program, as described above, would make the bond increase even more effective, as several HFAs have noted that their ability to help at-risk borrowers has been limited to date because many have negative equity in their homes and lenders have been unwilling to write down loans.

7. *Approve Legislation to Modernize FHA Lending Practices* so it can better meet the borrowing needs of households who turned to subprime lenders in recent years.

Both the House (H.R. 1852) and the Senate (S.2338) have approved bills in the past 12 months to modernize FHA lending practices in a financially sound way. The House version would also put some of the profits likely to be generated by increased lending activity into a national housing trust fund as discussed above. Both bills would raise the value of homes the FHA could insure so that it could serve borrowers in higher cost market and allow it to use risk-based insurance premiums so it could serve higher risk but creditworthy borrowers and provide them with lower cost financing. H.R. 3221, as passed by the Senate, also includes many of these provisions but prohibits adoption of the risk based insurance premiums that are key to the goal of serving more borrowers in a financial sound way.

8. *Support Anti-Predatory Lending and Foreclosure Prevention Legislation* The current foreclosure crisis has made the need for mortgage reform legislation abundantly clear. We support legislation to outlaw predatory lending practices, to improve disclosures to borrowers, and to require mortgage originators and servicers to act affirmatively to prevent foreclosures.

H. 3915, passed by the House in November 2007 provides a good starting point by banning loans which borrowers are not reasonably likely to be able to repay and limiting steering to higher price loans. We urge the Senate to pass companion legislation and recommend revisions to the House model to strengthen consumer protections and penalties for violators. We also support legislation such as H.R. 5679, recently introduced, which would amend the Real Estate Settlement Procedures Act, to require mortgage holders to engage in reasonable loss mitigation efforts before initiating any foreclosure and to contact borrowers at least 60 days before any payment reset dates.

9. *Temporarily Authorize Bankruptcy Judges in Chapter 13 Proceedings to Modify Home Mortgages.* A major barrier to solving the foreclosure crisis has been the unwillingness of mortgage holders or servicers to modify loan terms. Several bills have been filed that would permit judges to modify terms in the case of subprime loans to bring them to manageable levels. Supporters estimate such legislation could help 600,000 households.

Section 8 Voucher Reforms

The Section 8 Voucher Reform Act (SEVRA) proposes major legislative changes to the voucher program – the first since 1998 when Congress enacted "QHWRA," the Quality Housing and Work Responsibility Act. Many organizations in the Network have been working with this program since before QHWRA, and have seen the program grow and evolve into a successful and critically important resource for 138,000 New England low-income households receiving tenant-based assistance, including families, elders, and people with disabilities. SEVRA would build on that record of success by improving and streamlining program rules while retaining core program characteristics.

H.R. 1851 passed the House of Representatives on July 12, 2007 by a strong, bipartisan vote of 333-83. Companion legislation, S. 2684, was introduced in the Senate on March 3, 2008 and currently awaits action by the Banking Committee.

The New England Network strongly supports SEVRA, and hopes that it will be passed and signed into law this year. Some of SEVRA's most important provisions include:

Funding Formula: Provides for a stable funding formula, which will encourage agencies to serve the maximum number of families with available funds because it bases funding on cost data for the most recent calendar year. This would ensure that every agency would have the security of knowing it had enough funding to renew all its vouchers each year.

Authorization of Incremental Vouchers: Authorization for 20,000 incremental vouchers in each of the next five years. New vouchers would provide desperately needed housing for the thousands of households currently on Section 8 waiting lists nationwide.

Administrative Fees: Ties each agency's administrative fee payments to its voucher utilization, thereby creating an incentive for agencies to lease the maximum number of vouchers that can be funded within the agency's budget.

Tenant Protection Vouchers: Directs HUD to issue tenant protection vouchers to replace all lost federal housing subsidies, whether or not they are occupied at the time the subsidy was eliminated.

Rent Burdens: Requires annual reports on rent burdens and encourage public housing authorities (PHAs) to increase payment standards to reduce undue rent burdens, with required HUD approval for payment standards up to 120% of FMR when rent burdens exceed reasonable limits.

Tenant Rent Payments: Streamlines the rules that determine the amount voucher holders and public and assisted housing tenants are required to contribute toward their rent each month, while maintaining income-based rents and the key principle that tenants should not pay more than 30 percent of income for rent.

Income Targeting: Revises the targeting requirement to the higher of (a) 30 percent of the local area median income or (b) the federal poverty line. This change would give agencies in the lowest-income areas added flexibility to serve low-wage working families.

Housing Quality Inspections: Requires inspections every two years rather than annually; allows PHAs to rely on inspections performed for other housing assistance programs; and permits a household to move into a unit that fails initial inspection for a non-life-threatening reason with the first month paid.

Portability: Requires the agency in the jurisdiction where the voucher holder wants to move to absorb the voucher and provides them with the funding to do so.

Project-Based Voucher program: Provides some much needed changes to allow greater use of this production tool, including provisions to clarify allowable rents in Low Income Housing Tax Credit (LIHTC) units and permit a guaranteed rent floor despite a reduction in fair market rent. Also allows project-basing of 25% (rather than 20%) of funds, plus 5% for households who are homeless.

Deconcentration of Poverty: Establishes deconcentration as a performance goal.

Earned Income Disregard: Promotes work by disregarding a percentage of the earned income of all employed individuals.

Preservation of Existing Affordable Housing

The preservation of the existing affordable housing stock continues to be of utmost concern to the Network. Hundreds of thousands of American households live in rental units that were developed with mortgages and/or project based rental assistance contracts from either HUD or Rural Housing Services.

Many of those units were developed in the late 1970's or early 1980's, and their mortgages are beginning to mature or are subject to prepayment. In addition, Section 8 contracts continue to expire and are renewable at the owner's discretion. A recent GAO report noted that there are 23,000 HUD subsidized properties nationwide, of which 11,267 have HUD mortgages. Twenty-one percent of those properties, comprising 101,000 units, will mature in less than ten years. HUD-subsidized properties with state Housing Finance Agency mortgages are in a similar situation.

The recent difficulties with insufficient project-based Section 8 funding have only added to a growing "HUD fatigue," in the GAO's own words. Fortunately, Congress is responding to this problem, and the Network wishes to express its thanks for the work of the appropriations and authorizing committees for an extremely productive year, and for their responsiveness to our previous requests for action.

Last year, the Network endorsed the comprehensive proposal recently made by the National Preservation Working Group, an association of national, regional and local stakeholders committed to the vitality of our affordable housing stock. The principal provisions of those recommendations addressed the need to: Maintain Housing at Risk of Being Converted to Market; Restore Housing at Risk of Loss Through Deterioration; and Protect and Empower

Residents Facing Conversion. In addition, certain tax measures were recommended, to enable the Low Income Housing Tax Credit to serve preservation needs better.

We are pleased that Chairman Frank has drafted a comprehensive preservation bill that addresses virtually all of our recommendations. The Network generally endorses this bill and supports the constructive comments made by the National Preservation Working Group on April 10, a copy of which can be provided upon request. We urge the introduction of a similar bill in the Senate.

In addition, we endorse the provisions in the House and Senate bills to modernize the Low Income Housing Tax Credit program, including permitting the use of tax credits for Section 8 Moderate Rehab properties, and the Senate's provision repealing the 10 year placed-in-service rule for acquisition credits.

The preservation provisions in H.R. 2930 & S. 2736, reforming the Section 202 program, will provide important new tools, including authorization of a new Senior Preservation Contract made available to nonprofits owner as project-based rental assistance for units not already covered, and expansion of authority to provide enhanced vouchers. These bills also broaden the eligible uses of refinancing proceeds and refinancing methods, clarify rent increase protection for unassisted tenants and authorize subordination, sale and restructuring of existing debt.

The Network also supports the Mark-To-Market Extension and Enhancement Act of 2007 (HR 3965), which will provide important authority to extend the M2M program to October 1, 2012; extend the period of eligibility for nonprofit debt relief from three to five years; extend HUD's authority to approve rents in excess of 120% of FMR; and make a broader range of properties eligible for M2M, subject to owner consent.

Low Income Housing Tax Credits

The Low Income Housing Tax Credit (LIHTC) program is the most important resource for creating affordable rental housing. Created in 1986, the LIHTC program has produced approximately 1.9 million apartments with rents affordable to low income families, seniors, homeless individuals, and those with special needs by providing investors with federal tax credits in exchange for equity. The LIHTC program, which leverages about \$6 billion of private investment annually, accounts for most new affordable rental housing production and drives about 40% of all multifamily housing development.

This federal program is administered by the states which received a 2008 allocation of credits equal to \$2.00 per capita with a small state minimum of \$2,325,000. State agencies allocate tax credits according to their own policies and procedures. These same agencies monitor compliance during the development stage and for at least 15 years thereafter.

A December 2005 independent study by Ernst and Young demonstrated that the LIHTC program is highly successful in producing quality affordable housing in an efficient manner. Nonetheless, there are several important improvements to this IRS-administered program which would

increase its effectiveness.

The New England Network supports H.R. 5720, the Housing Assistance Tax Act of 2008. This bill, which was reported by the House Ways and Means Committee on April 9, makes the tax credit more effective in raising private equity and more efficient to use. For 2008 and 2009 the bill would increase the per capita allocation cap by \$0.20 in each state. The legislation would also temporarily increase mortgage revenue bond authority to allow for the issuance of an additional \$10 billion of tax-exempt bonds to refinance subprime loans, provide loans to first-time homebuyers and to finance the construction of low-income rental housing. All housing bonds would be removed from the AMT, as would Low Income Housing Tax Credits and historic rehabilitation credits, which expands the market for the bonds.

Importantly, the bill would also extend the 130% high-cost area credit increase to state-designated buildings, provide 12 months to satisfy the 10 percent requirement for carryover allocations, increase the allowable basis for community service facilities, and suspend the recapture bond requirement for five years. For the allocated credit, rural income would be measured by the higher of local median income as under current law, or national non-metro median income. This will increase the number of eligible tenants.

Other tax credit changes include extending the allocated credit to the acquisition cost of existing buildings that are substantially rehabilitated, as long as they aren't federally subsidized, and putting a floor under the credit rate; limiting the definition of federal subsidy to tax-exempt bond financing; raising the rehab threshold to the greater of 20 percent of the building's basis or \$6,000 per unit; and repealing the ban on tax credits for buildings with Section 8 moderate rehabilitation assistance.

On the Senate side, the Network urges you to support the Affordable Housing Investment Act of 2008 (S. 2666), which was introduced by Senators Cantwell and Smith. This bill contains many of the same provisions in H.R. 5720. New England co-sponsors include Senators Kerry, Snowe and Sununu.

National Housing Trust Fund

The New England Housing Network supports legislation to establish a National Housing Trust Fund. Such legislation would provide a permanent mechanism to boost affordable housing production through funds outside the annual budget appropriations process.

One such mechanism is H. 1427 which passed the House in May 2007. That Act would establish an Affordable Housing Fund, which would be operated by the new GSE regulator with funds contributed by Fannie Mae and Freddie Mac. The money could be used to produce, preserve and rehabilitate rental housing and create homeownership opportunities for extremely low and very low income families. It could also be combined with other funds to address strategic affordable housing and community and economic development needs in economically underserved areas.

There is also a possibility that these proposals will be incorporated in the pending foreclosure mitigation bills in the House and Senate.

HOPE VI

The HOPE VI Public Housing Revitalization Program was enacted in 1993 with high hopes that it would be the driving force in the revitalization of severely distressed public housing and its surrounding neighborhoods. The results in New England have been mixed. The program has been used successfully in Massachusetts by transforming some deteriorating public housing communities into successful affordable housing developments. However, in many other states the program has resulted in the demolition of many more units of low income housing than it has replaced. With the cost of rents rising rapidly, every affordable housing unit in New England serves a critical purpose; preservation is essential to the health of our communities. Therefore, the Network supports the continuation of the HOPE VI program, but with the following changes that are included in H.R. 3524, the HOPE VI Improvement and Reauthorization Act of 2007:

- All units demolished under future HOPE VI awards must be replaced (with narrow exceptions);
- Replacement units must be comparable regarding resident eligibility and long-term affordability;
- Language regarding the rights of displaced residents must be strengthened, including the elimination of rescreening and readmission processes;
- Program improvements designed to deconcentrate poverty must be included; and
- The redevelopment planning process must include strong resident participation requirements.

Housing for the Elderly

HUD's Section 202 program was created through the Housing Act of 1959. It is in need of some important reforms that will improve the efficiency of the program, facilitate refinancing that is often necessary for capital improvements, preserve existing facilities, use the assisted living conversion program more effectively to renovate projects, and more easily marry the 202 program with other funding sources to create more apartments. These important changes are reflected in H.R.2930, which passed the House of Representatives in December 2007. A companion bill, S.2736, is now in the Senate. The New England Housing Network strongly supports passage of S.2736 and urges passage prior to the May recess so that the bill can be enacted before Congress adjourns for the year.

There is one important difference between the House and Senate bills. The Senate bill added Section 201(4), which makes refinancing possible for older 202 developments (those built before 1974). As the law currently stands, a 202 development cannot be refinanced if the new interest rate would be higher than the original rate. The older developments tend to have low interest

rates, and, therefore, cannot raise the capital needed for improvements through refinancing. The Network asks that our congressional delegation works to make sure that this provision stays in the bill, both as it makes its way through the Senate and in Conference.

Homelessness Assistance Programs

Homelessness remains a critical issue throughout New England. Too many people end up in emergency shelters or on the street, drawing on expensive emergency services, or precariously doubled up with family or friends, simply because they cannot find a home they can afford, or because needs around mental illness and substance abuse are not being met within the community. Most disturbingly, a growing proportion of the homeless population consists of working families.

In some New England states, almost a quarter of the homeless are children. Those who have experienced repeated or long-term episodes of homelessness are unable to connect to the services and supports they need to maintain stable housing. Homelessness exacts significant costs on public systems, children's well-being and educational outcomes, and the ability of individuals to contribute to society. Studies in New England and nationally have been consistent in demonstrating that providing permanent supportive housing for individuals who are homeless costs less money than allowing them to ricochet through emergency systems.

Both the House and Senate are considering legislation to improve the homelessness assistance programs:

House: The House legislation, HR 840, the HEARTH Act was introduced by the late Representative Julia Carson (D-IN) with lead Republican Representative Geoff Davis (R-KY) in February 2007.

Senate: S 1518, the Community Partnership to End Homelessness Act, was introduced by Senator Jack Reed (D-RI) with lead Republican Senator Wayne Allard (R-CO) in May 2007 and passed the Senate Committee on Banking, Housing and Urban Affairs and awaits action on the floor of the U.S. Senate.

The New England Housing Network wants to ensure these two pieces of legislation are similar to enable quicker enactment and a permanent solutions focus.

Some of the issues that need to be addressed in legislation dealing with homelessness programs are:

--Funding permanent housing renewals from the account that funds Section 8 vouchers which would provide stability for renewals as well as free up funding for other new projects.

--Legally requiring the practice of establishing a 30 percent set aside for permanent housing for people with disabilities, including both individuals and families.

--Requiring HUD to create an incentive (probably a bonus program) for rapid re-housing programs for families.

--Dedicating at least 10 percent of funding to permanent housing activities for homeless families regardless of disability status.

--Adding families to the definition of chronic homelessness making chronically homeless families eligible for the same permanent supportive housing programs that chronically homeless individuals are.

--Requiring HUD to continue special incentives for permanent supportive housing for those who experience chronic homelessness.

PATH: Raising the State Minimum to Support Outreach for Homeless Mentally Ill

The New England Housing Network supports passage of S. 1098 and HR. 2636, which would increase funding for the Projects for Assistance in Transition from Homelessness (PATH) program. PATH was created under the Public Health Service Act in 1990 and is a formula block grant to provide services for homeless or those at imminent risk of becoming homeless because of mental illness. The PATH program provides funds for community-based outreach, mental health, substance abuse, case management and other support services, as well as a limited set of housing services for people who are homeless and have serious mental illnesses. It has successfully identified homeless people suffering from mental illness and helped deliver the treatment they need to lead stable lives.

S. 1098 was introduced last year by Senators Domenici and Kennedy and co-sponsored by Senators Leahy and Sanders. HR. 2636, the House companion bill, was introduced by Representatives Peter Welch and Heather Wilson. Together, these bills correct a fundamental funding inequity in the PATH program: since its inception in 1991, there has been no funding increase for the 26 states and territories that have rural and frontier populations. These states have continued to receive the minimum allocation of \$300,000 even as program appropriations have risen from \$33 million to \$50 million. Under the current formula, many States and territories will never receive an increase to their PATH program even with the increasing demand and inflation and additional appropriations. In the New England Region Vermont, Maine, New Hampshire, and Connecticut have had no PATH federal funding increases since 1991.

The two bills would raise the state minimum allocation to \$600,000 and change the minimum for territories from \$50,000 to \$100,000. In doing so, they hold harmless larger states and insure that no state will lose funding from prior allocations.