LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

Hearing of the United States Senate Committee on Banking, Housing and Urban Affairs:

Examining Proposals to Address Housing Affordability, Availability, and Other Community Needs

Testimony of Matt Josephs, Senior Vice President of Policy

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Chairman Brown, Ranking Member Scott, and Members of the Committee:

I thank you very much for the opportunity to speak with you today to discuss the critical role that federal policy plays in supporting affordable homeownership, rental housing, and community development projects throughout the country, and what additional actions Congress can take to enhance these activities. I recognize that the Committee has many priorities, and I applaud you for your focus on these critical issues.

My name is Matt Josephs, and I am the Senior Vice President of Policy at the Local Initiatives Support Corporation (LISC). LISC is a nonprofit housing and community development organization and certified Community Development Financial Institution (CDFI) with offices in 38 cities throughout the country, and a rural network encompassing 140 partners serving 49 different states, the U.S. Virgin Islands and Puerto Rico. LISC's work supports a wide range of activities, including affordable housing, economic development, building family incomes and wealth, education, community safety, and community health. LISC and its affiliates raise and deploy well over $2 billion annually in grants, loans and equity capital into distressed urban and rural communities.

LISC believes that a safe, affordable home is one of the basic requisites of life - a key to individual health, well-being and financial security. We also believe that underserved communities require community development investments to bolster local economies, create jobs, improve quality of life, and allow residents to meet their individual goals. This is why LISC takes a holistic approach to investment, investing in affordable housing as well as in small businesses, community facilities, commercial and retail space, recreational space and other physical assets that contribute to overall neighborhood revitalization.

In this testimony, I will discuss: (i) the current landscape with respect to financing affordable housing and community development projects; (ii) the role that CDFIs play in the housing and community development financing ecosystem; (iii) the critical role of federal programs, policies and initiatives in supporting investments in housing and community development; and (iv) actions Congress can take to increase affordable housing and community development investments.

I. Current Landscape

Over the past few years, our nation has experienced large swings in the housing market due to the economic impacts of the pandemic and consistent underproduction of housing supply. These impacts have been disproportionately felt by lower-income families and households of color, which experienced housing constraints before Covid. LISC has seen throughout our national footprint that the greatest single housing challenge is the lack of supply, in both the multifamily and single-family markets, which is making housing increasingly unaffordable for lower, moderate and even middle income families.

Community development projects also experience challenges, including a lack of access to capital for small businesses, operating cost pressures on childcare operators and other community service providers, and limited sources of funding available for commercial corridor revitalization. As discussed further below, affordable housing and community development organizations working in rural and high poverty communities experience even greater challenges, due to less overall capacity and resources to meet these needs.

Multifamily Housing

We are facing a severe housing shortage in this country. It is estimated that our nation has underproduced on almost 3.8 million units of housing.[1] This is not a recent trend. Housing starts peaked at 2.3 million in 1972 and have not topped 2 million in any year since 1978 despite a growing U. S. population. However, we are facing new headwinds that are making it even harder to build quality affordable housing.

Specifically, the housing sector has experienced increased costs across the board, including for construction materials, labor, insurance, and the debt needed to finance their properties.[2] The price of inputs to new residential construction (excluding capital, labor, and imports) was up 20 percent year over year in February 2022.[3] LISC finances affordable rental housing projects across the country, and in markets of all types, we have seen firsthand the additional financing gaps created by these inflationary pressures. These can threaten the likelihood of a project going to completion if additional sources of scarce affordable housing funding can't be secured.

The lack of housing supply has been the primary reason that the multifamily rental market has experienced historic rent growth. Rents increased a record 11.6 percent at the end of 2021 and remained at an elevated pace during the first quarter of 2022.[4] This was the largest year-over-year increase in two decades and more than three times the 3.2 percent average annual rise in the

1 https://upforgrowth.org/apply-the-vision/housing-underproduction/

2 Fannie Mae. *Covid-19 and Multifamily Construction Costs*. https://multifamily.fanniemae.com/news-insights/multifamily-market-commentary/covid-19-and-multifamily-construction-costs

3 Harvard University. *State of the Nation's Housing*. https://www.jchs.harvard.edu/state-nations-housing-2022

4 Harvard University. *State of the Nation's Housing*. https://www.jchs.harvard.edu/state-nations-housing-2022

five years preceding the pandemic.[5] For the first time, the median asking rent in the 50 most populous metropolitan areas is more than $2,000.[6] Rent growth has recently declined due to lower inflation rates, although it would take far more declines to counteract the overall historic gains.[7]

High rent burdens contribute to housing instability for underserved families. In no state, metropolitan area, or county in the U.S. can a worker earning the federal or prevailing state or local minimum wage afford a modest two-bedroom rental home at fair market rent by working a standard 40-hour work week.[8] In addition, nearly half of all renters are now considered cost-burdened since they spend at least 30 percent of their income on housing.[9]

While the most severe affordability challenges continue to be at the lowest end of the income spectrum, there have been growing challenges felt by middle income households, particularly in high-cost markets. City leaders from across the country have shared with LISC their struggles with housing teachers, firefighters, nurses and municipal workers, and related challenges in attracting talent to both public and private sector jobs due to inadequate supply of quality affordable housing. Renter cost burdens increased across all income levels in 2021, although they were the largest among middle-income groups.[10]

Single Family Homes

The nation's underproduction includes the single family housing market too, resulting in higher prices for those homes that are on the market. Home price appreciation nationwide hit 20.6 percent in March 2022—topping the previous high of 20.0 percent in August 2021 and marking the largest jump in three decades.[11] Home price increases have cooled since the Federal Reserve began raising interest rates, although prices generally remain high, and elevated interest rates make it more difficult for first time homebuyers to purchase a home. Just 42.2 percent of new and existing homes sold between the beginning of July and end of September 2022 were affordable to families earning the U.S. median income of $90,000.[12] This was the second consecutive quarterly record low for single family housing affordability since the Great Recession.

Homeownership disparities between racial and ethnic groups stubbornly persist. In the second quarter of 2022, the homeownership rate for White households was 75 percent compared to 45 percent for Black households, 48 percent for Hispanic households, and 57 percent for non-Hispanic households of any other race.[13] These gaps in homeownership rates have changed little over the last three decades. In fact, the Black-White gap in homeownership rates was the same in 2020 as it was in 1970, just two years after the passage of the Fair Housing Act of 1968, which

5 Ibid

6 National Low Income Housing Coalition. *Out of Reach*. https://nlihc.org/sites/default/files/oor/2022/OOR_2022_Mini-Book.pdf

7 Dr. Christopher Herbert. *Senate Banking Committee Testimony*. https://www.banking.senate.gov/download/herbert-testimony-2-9-23

8 National Low Income Housing Coalition. *Out of Reach*. https://nlihc.org/sites/default/files/oor/2022/OOR_2022_Mini-Book.pdf

9 Joint Center on Housing Studies Blog. https://www.jchs.harvard.edu/blog/number-renters-burdened-housing-costs-reached-record-high-2021

10 Christopher Herbert. Senate Banking Committee Testimony. https://www.banking.senate.gov/download/herbert-testimony-2-9-23

11 Harvard University. *State of the Nation's Housing*. https://www.jchs.harvard.edu/state-nations-housing-2022

12 https://www.nahb.org/news-and-economics/press-releases/2022/11/housing-affordability-falls-to-more-than-10-year-low-as-rising-interest-rates-take-a-toll

13 https://home.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing#:~:text=housing%20equity%20wealth.-,Homeownership,households%20of%20any%20other%20race.

sought to end racial discrimination in the housing market.[14] These disparities limit the ability of families of color to achieve their homeownership goals and limits asset building opportunities, contributing to our nation's racial wealth gap.

Many communities have also been significantly impacted by real estate investors purchasing single family housing properties for rental housing. Increases in investor-owned properties are associated with rising rental prices, particularly in the most affordable segment of the housing market. These investor purchases reached a record high in 2021[15], are geographically concentrated in the South and Southwest sections of the nation and are primarily in low cost, neighborhoods with a majority households of color.[16] Between 2010 and 2021, the share of homes purchased by investors in majority Black zip codes has increased from 13% to 30%; compared to increases from 7% to 12% in other zip codes.[17] LISC has seen the impacts of these practices in several of our local office markets, including Atlanta, Charlotte, Jacksonville, Phoenix, Detroit and others. Increased investor activity has been linked with troubling property management practices and, as critically, it limits the ability of first time and minority families to purchase homes and build wealth.[18]

Community and Economic Development

Just as there are significant challenges to investing in affordable housing, so too are we seeing challenges to investing in other community and economic development projects in our neighborhoods. Many of these are long standing challenges, including: real and perceived risks from the private sector, insufficient infrastructure, higher levels of environmental remediation, less collateral availability, fluctuating income flow from small businesses or non-profit project sponsors, and a longer timeline for economic returns. That is why lower income communities and families are particularly vulnerable to any disruptions to the economic markets, and the recent investment trends we discussed in housing we also see with respect to community and economic development investments.

For example, small businesses often face difficulties in raising capital. Most banks will not consider loans of less than $250,000, making it very difficult for businesses to raise start up funding. This is a particular challenge for business start ups from lower income owners, who likely do not have resources from friends and family that can be used to cover up front operating costs, nor access to peers that have experience owning and operating successful larger businesses. Many of these businesses rely on credit card and other higher interest loan products to support their operations, which makes them particularly vulnerable in higher interest rate environments.

We are seeing similar dynamics play out in the community facilities financing space. LISC funds charter schools, workforce development centers, federally qualified health care centers and childcare centers, among other community based facilities. Banks generally require much higher collateral from these projects because income flow can fluctuate considerably from month to

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14 Ibid.

15 Schaul, Kevin and O'Connell, Jonathan. "Investors bought a record share of homes in 2021. See where". Washington Post. February 16, 2022.

16 Dr. Desiree Fields, Senate Banking Hearing: How Private Equity Landlords are Changing the Housing Market. https://www.banking.senate.gov/download/fields-testimony-10-21-21

17 Schaul and O'Conell

18 Frankel T and Keating D (2018) Eviction filings and code complaints: *What happened when a private equity firm became one city's biggest homeowner*. The Washington Post. https://www.washingtonpost.com/business/economy/eviction-filings-and-code-complaints-what-happened-when-a-private-equity-firm-became-one-citys-biggest-homeowner/2018/12/25/995678d4-02f3-11e9-b6a9-0aa5c2fcc9e4_story.html

month, and because it may be difficult to repurpose the properties if the bank is forced to foreclose and take ownership.

We see particularly acute challenges in the childcare sector. While investments in childcare are critical for ensuring a productive US workforce, the current economics of building and maintaining high-quality early childcare education facilities creates significant barriers to providers entering and staying in the market. Most notably:

- *Child care providers tend to operate at exceptionally thin margins, leaving very little room to support debt on the property.* This inhibits providers' ability to acquire and/or develop facilities, as well as renovate existing facilities to meet the needs of a high-quality center.

- *Most providers – like other small businesses – should expect to see operating losses during their startup phase.* This is prohibitive to providers entering the market or expanding, especially given the thin operating margins and inability to take on additional debt.

- *Many providers also experience barriers to participating in the real estate and financing aspects of the facilities process*, including creating an operating budget, developing and implementing information systems, working with an architect, and engaging with the regulatory bodies that oversee building codes.

These barriers are prevalent across markets, including urban, suburban and rural communities. In high-cost markets, providers are often priced-out from acquiring land or existing facilities, both because of the significant up-front purchase costs, as well as the capital needed to hold the land until the center is ready to open. And in rural areas, many of which have depressed economic markets, extreme unemployment, and dispersed populations, it is simply not economically viable to build a high-quality center when it is unclear if enough families will be able to attend, or if they will be able to pay a rate that supports the facilities' operations. Family-based childcare is often the only option in rural areas, but these providers are also constrained by the depressed economic markets and dispersed populations.

Rural Communities

We know from our work, and the data confirms, that rural America experiences distinct economic and housing characteristics from the rest of the United States. On the economic front, rural America has not experienced population or economic growth at the rate of the national average and many persistently poor rural areas have experienced outmigration and population decline for decades. In fact, 81 percent of persistently poor communities (those with 20 percent of the population being at or below the poverty level for three decades) are outside metropolitan areas, with geographic concentrations in Central Appalachia, Mississippi Delta, border Colonias, Native American lands, and southeastern communities.[19] Rural America is often challenged by undiversified local economies that are disproportionately impacted when one larger employer leaves a community or when commodity and extractive resource prices decline. In addition, rural America tends to have older populations than the country as a whole, with 19 percent of

[19] *Taking Stock,* Housing Assistance Council

residents over the age of 65 versus 16 percent nationally.[20] Communities with a disproportionate number of older adults often have challenges providing necessary services since these populations are more likely to be on fixed incomes and have special needs.

These economic realities create distinct housing needs in rural areas, especially low-income rural communities. Over half of renters in rural areas had incomes under $35,000.[21] And while rural communities may generally be more affordable than metro areas, the low median incomes result in 44 percent of rural renters being housing-cost burdened.[22] Housing in rural America is distinguished in other ways, including by higher rates of homeownership (73 percent vs national average of 65 percent); higher proportion of manufactured housing (13.4 percent, twice the national average); an older rental housing stock which is more likely to have housing problems, including 5.6 precent of housing being substandard; and specific local needs such as high overcrowding rates in many Native American communities.[23]

Nowhere is the nexus between housing and economic development more pronounced than in rural communities, which are increasingly hearing from employers that would like to locate high quality construction and manufacturing jobs to those communities but are facing the realities that there isn't enough quality housing to support their workforce.

II. Role of CDFIs in the Community Development Finance Ecosystem

CDFI Activities

Community development financial institutions provide capital, credit, and financial services in underserved communities and individuals throughout the country. There are over 1,400 Treasury certified CDFIs across the country, ranging from credit unions to small non-profit loan funds to large national organizations. Collectively, CDFIs have $247 billion in total assets and serve communities of all sizes in all 50 states, the District of Columbia, Puerto Rico, and Guam.[24] CDFIs serve borrowers and geographic areas that are not readily served by mainstream financial institutions, providing loans to first-time homebuyers, financing for affordable rental housing and community facilities, and small business financing. In many cases, CDFIs provide the gap financing or the early stage financing that allows projects to secure conventional financing.

The most recent data from the CDFI Fund shows how CDFIs are meeting needs, with their primary lines of business split between business and microfinance, consumer lending, and residential real estate finance, in addition to other activities.[25] In 2020, over $110 billion in lending was originated by CDFIs for affordable housing, consumer lending, and community development projects, with almost 77% of the number of those loans for projects and people living in an underserved community or for low-income households.[26] Certified CDFIs are also required to provide training and technical assistance with their lending products, to ensure borrowers are successful. In 2020, over 4.6 million individuals received housing counseling,

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[20] Ibid.
[21] Ibid
[22] Ibid.
[23] Ibid.
[24] https://www.cdfifund.gov/sites/cdfi/files/2023-01/CDFI_Fund_FY22_AFR_FINAL508.pdf
[25] https://www.cdfifund.gov/sites/cdfi/files/2021-10/ACR_Public_Report_Final_10062021_508Compliant_v2.pdf
[26] Ibid

financial education, business technical assistance, real estate trainings, and other development services.[27]

CDFIs serve communities of all sizes, including rural areas. A recent Federal Reserve survey highlighted that 25 percent of CDFI respondents reported serving small towns.[28] CDFIs serving rural communities are often the only entities providing affordable housing and community development financing opportunities, due to contractions in the banking sector over time and capacity limitations of local organizations. These CDFIs though tend to have less sources of funding to expand their financing, even though over 75 percent of them reported increased demand for their lending products.[29]

LISC Activities

LISC has been a certified CDFI since 1995 and provides support relating to all components of the affordable housing financing and community development ecosystem. We raise capital and manage the assets of Low-Income Housing Tax Credit and New Markets Tax Credit investment funds; provide training and technical assistance grants to nonprofit housing developers and community development corporations; provide debt capital for multifamily housing projects, commercial real estate projects and small businesses; administer off balance sheet funds on behalf of municipalities, private sector organizations and foundations; support single family housing development and rehabilitation; and support rural housing initiatives, both single family and multifamily.

In 2023 alone, LISC and its affiliated entities deployed over $2.5 billion in equity capital, loan capital and grants to provide support to low income families and help revitalize distressed rural and urban communities throughout the country. This included $1.2 billion of equity investments in affordable housing that were secured by our affiliate, the National Equity Fund, through the Low Income Housing Tax Credit, including into funds that have been dedicated to support veterans housing and housing that is developed by smaller, emerging and minority developers. Since inception, LISC and its affiliates have invested $29.7 billion in grants, loans, and equity in affordable housing and community development projects, leveraging $82 billion and supporting 489,000 homes and apartments.

LISC's single family work includes home repair, down payment assistance, single family development financing, and heirs property assistance. Pioneered in 2015 by our Detroit LISC office, we offer 10-year, interest free loans ranging from $5,000 to $25,000 to complete home repairs, fix structural defects and resolve health and safety issues such as lead, mold and asbestos contamination. The Detroit program has provided $13.6 million in financing to 688 homeowners, 95% of whom are Black, and 71% of whom are low-income households. The loan fund structure draws upon three sources of financing – Community Development Block Grant funds, private loan capital and grant funding – and we are in the process of building out similar programs in Memphis and other cities across the country.

[27] Ibid.
[28] https://fedcommunities.org/a-closer-look-at-rural-cdfis/
[29] Ibid.

LISC has also been significantly engaged in economic development and commercial revitalization activities, including through Broadstreet Impact Services – our affiliate organization that secures equity investments and related debt through the New Markets Tax Credit program. Through 2022, LISC has placed $1.14 billion in NMTC equity investments in 172 different projects in low-income communities throughout the country, supporting $3.67 billion in total development costs. LISC NMTC investments have created or retained more than 23,000 construction and permanent jobs, developed 13.9 million square feet of commercial and community space, and financed health care facilities serving more than 242,000 patients and educational facilities serving 49,000 students.

LISC has also increasingly been investing in small businesses and in the small business ecosystem. LISC is currently supporting a network of over 140 business development organization (BDOs) throughout the country, in both our urban and rural communities. BDOs offer comprehensive business services, including planning, financial coaching, assistance accessing new revenue streams and more. They function as a high-touch response system for emerging entrepreneurs and legacy small business owners alike, helping them to launch, operate, grow, develop resiliency and create new jobs in their communities. BDOs include community development corporations, CDFIs, chambers of commerce, business improvement districts, merchants associations, incubators, accelerators and more.

LISC also has a strong commitment to improving rural communities and in 1995, launched Rural LISC, a national program created to expand our reach beyond urban areas. Today, Rural LISC partners with 140 rural community-based organizations, including five financial intermediaries, helping each organization identify challenges and opportunities, and delivering the most appropriate support to meet those local needs. Over half of our partners provide housing assistance to the small towns they serve. LISC has renewed our commitment to rural communities through our Rural LISC Promise, our pledge to catalyze at least 20 percent of the community development impact that LISC makes, in any year, in rural communities.

III. Critical Role of Federal Affordable Housing and Community Development Programs

The federal government plays an essential role in supporting CDFIs, as well as helping to fill market gaps for affordable housing and community development projects. Below, we highlight some of the most essential federal programs supporting this work, many of which fall under the purview of this Committee.

Multifamily Housing

The construction and preservation of nearly all affordable rental housing relies heavily on Low-Income Housing Tax Credits. Housing Credit properties often utilize other sources of federal subsidy, including the HOME Investment Partnership program, Capital Magnet Fund, USDA Rural Housing Service programs, and rental assistance through HUD's Section 8 Project-Based Rental Assistance, Project Based Voucher, and Housing Choice Voucher programs. These rental assistance programs are essential for affordable housing serving our nation's poorest households.

<u>Low Income Housing Tax Credit</u>

The Housing Credit is the nation's most successful tool for the production and preservation of affordable rental housing. Since its enactment in 1986, the Housing Credit has produced just under 4 million affordable homes, serving more than 8 million households, supporting approximately 6 million jobs annually, and generating approximately $250 billion in taxes and $700 billion in wages and business income. What's more, properties financed with the Housing Credit must remain affordable for a period of at least 30 years, and longer in certain states.

The federal statute generally requires all Housing Credit units to be rented to tenants with incomes at or below 60% of area median income (AMI), and that rents charged may not exceed 30 percent of the applicable median family income. However, a significant percentage of Housing Credit units are rented and affordable to tenants with considerably lower incomes. According to recent HUD data on Housing Credit resident demographics, 53 percent of all households living in Housing Credit apartments are extremely low-income, meaning they earn 30 percent of AMI or less; and another 31 percent of households are classified as very low-income (earning less than 50 percent of AMI). This deep targeting is in large part due to the requirements in federal law that creates a preference for developments that commit to deeper income targeting; and in many cases would not be possible but for federal, state or local rental subsidies that well compliment the Housing Credit program.

The success of the Housing Credit program can be measured not only by the number of units of affordable housing it has produced, but also by the financial strength of the properties developed. According to periodic analysis by the national accounting firm CohnReznick, the cumulative rate of foreclosure on Housing Credit properties is lower than any other real estate asset class, well below 1%. This is a tribute to the quality of underwriting at the original financing as well as the multiple eyes on the development by the state housing finance agencies, local governments, lenders, equity providers and developers.

Section 8

The Housing Credit is best able to reach the poorest households when rental assistance is available, as the rents these families can afford to pay often cannot support the property's basic operating costs, let alone debt service. The Section 8 program provides vouchers directly to project owners known as project based vouchers, but also directly to renters known as tenant-based vouchers. Both types of vouchers are critically needed if we are going to ensure that the lowest income families have access to affordable housing. LISC is supportive of efforts to increase federal rental assistance resources since only one out of four eligible households receive it, and since it's so critical for housing extremely low-income families, including for persons experiencing homelessness.[30]

HOME Investment Partnership Program and Housing Trust Fund

The HOME Program is the only federal block grant to state and local governments designed exclusively to create and preserve affordable housing for low-income households. The funding is flexible and may be used for a variety housing of activities that other sources may not cover, including preservation of rental housing, homebuyer assistance, rehabilitation of owner-occupied homes and tenant-based rental assistance. For rental housing, HOME funds often provide either the early support necessary to initiate new development or the critical gap-financing needed to

[30] https://www.cbpp.org/research/housing/families-wait-years-for-housing-vouchers-due-to-inadequate-funding

complete developments. States and localities must provide at least a 25 percent match of their HOME funds from local funds. These entities typically leverage HOME program funds by generating more than $4 of other public and private funding for every HOME dollar. HUD's Housing Trust Fund further enhances HOME dollars by targeting additional resources to serve the lowest income families.

Capital Magnet Fund

The CMF provides competitive resources for CDFIs and nonprofit housing developers to finance affordable rental housing and homeownership projects and related economic development activities. It is administered by the CDFI Fund and by law, an organization must leverage its award with other sources of capital; the leveraged amount must be at least 10 times the amount of the award. This funding is typically utilized as gap sources in affordable rental housing projects. The CMF programs has awarded grants totaling nearly $1.1 billion to CDFIs and qualified non-profit organizations and of reported projects, awardees have attracted nearly $13.3 billion in total leverage. Recipients have five years to complete projects after receiving an award. As of September 30, 2022, awardees reported supporting 37,650 affordable rental housing units, 5,500 affordable homeownership units, and several community service facility projects, such as health care and other community facilities that are located near affordable housing.[31]

Federal Home Loan Bank Affordable Housing Program

The Federal Home Loan Banks are required to provide 10 percent of their net income for the Affordable Housing Program (AHP), which can support both affordable rental housing and homeownership. AHP is an important gap financing source for many Housing Credit projects. In addition, it can be utilized to support the purchase or rehabilitation of a home, with at least one third of that amount set-aside for first-time homebuyers.

USDA Multifamily Housing

The U.S. Department of Agriculture's (USDA) Section 515 Rural Rental Housing Direct Loan Program has funded the creation of 533,000 affordable rural rental housing units since inception and there are around 395,000 units of this housing remaining, which are located in over 87 percent of all U.S. counties.[32] The program hasn't funded new construction in many years and current resources are utilized to help preserve these properties as affordable, which is vital due to the lack of other affordable housing options in many of these rural communities and since many residents are elderly or disabled. More than 80 percent of Section 515 tenants receive federal rental assistance to make the rent affordable, with almost two-thirds funded through USDA's Section 521 Rental Assistance program. Families living in these properties have an average household income of $14,941 and two-thirds are elderly or disabled.[33]

Single Family Housing

Homeownership is one of the primary ways that low- and moderate-income families are able to build wealth and achieve financial stability. Increasing affordable homeownership is a key component in combatting historical policies that have precluded minorities and others from

[31] https://www.cdfifund.gov/sites/cdfi/files/2023-10/FINAL_2023_CMF_Award_Book_100323.pdf
[32] https://ruralhome.org/wp-content/uploads/2022/03/rural_research_brief_usda_rural_rental_housing.pdf
[33] Ibid

purchasing a home and widened the racial wealth gap. Unfortunately, we have very few federal resources for both supply and demand side affordable homeownership assistance; but those that we have are critically important.

HOME, CMF, and AHP

As mentioned, HOME, AHP, and the Capital Magnet Fund can be utilized for affordable homeownership purposes, including purchase assistance, owner-occupied rehabilitation, and for development projects in the case of CMF.

Housing Counseling

Many would-be first-time homeowners, including low-income and minority families, need assistance when preparing to purchase a house. Housing counseling provides prospective buyers the financial education and counseling they need to purchase a home they can afford. Housing counseling is also an essential tool for supporting current homeowners who are experiencing financial distress. Research has shown that housing counseling helps households avoid foreclosure and counseled clients were almost three times more likely to receive a loan modification and were 70 percent less likely to re-default on a modified loan than were similar borrowers who were not counseled.[34] To support both prospective and current homeowners, LISC supports full funding of HUD's Housing Counseling program. This program provides grants to HUD-approved housing counseling agencies and state housing finance agencies. This assistance is crucial in ensuring distressed families know their options for how to keep their homes.

USDA Rural Housing Service Single Family Programs

The USDA's Rural Housing Service administers several single-family programs, which support affordable homeownership for low-income families in rural communities. These include the Section 502 Single Family Housing Direct Home Loan program and Section 523 Mutual Self-Help Housing Technical Assistance program. The Section 502 Single Family Housing Direct Home Loan program is the only federal homeownership program targeted to low-income and very low income rural families. Over 60 years, the program has helped more than 2.1 million families achieve homeownership and built over $40 billion in wealth.

The Section 523 Self-Help Housing Technical Assistance program has helped more than 50,000 families achieve homeownership over the last 50 years. Under the program, families work together in groups to build their homes and equity. Section 523 grants support the non-profit developers providing training, supervision, and technical assistance to families. The program is targeted to low-income and very low-income families and over 50 percent of participants are minority households. The sweat equity gained by constructing a home, coupled with affordable mortgages through the Section 502 Direct Home Loan program, allows low-income rural families to achieve homeownership and build wealth.

Community and Economic Development

Investments in community resources help to spur broader economic growth. Federal investments often fill gaps in project financing and are at the core of funding that makes inclusive economic

[34] https://www.huduser.gov/portal/sites/default/files/pdf/Housing-Counseling-Works.pdf

development initiatives possible on the local level. This cooperative effort joining federal investment and locally led programs expands the entire economic ecosystem by revitalizing neighborhoods, attracting businesses, creating jobs, and broadening access to opportunity for all residents. LISC supports robust investments in programs across federal agencies that promote comprehensive community development initiatives and facilitate cross-sector partnerships, a few of which are highlighted below.

CDFI Fund
The Treasury Department's CDFI Fund certifies institutions as CDFIs and administers several different programs to support their capacity and growth, including the CDFI Program, which invests in CDFIs to increase their lending capacity. These resources have been instrumental to the CDFI's sector's growth over time. In FY 2022, CDFI Program awardees originated over $53 billion in loans and investments, financed $12.7 billion for home improvement loans, $8.1 billion for business and microenterprise loans, $5 billion for residential real estate transactions, and $17.7 billion for consumer loans. LISC supports increased funding for the CDFI Fund since the CDFI Program and its other competitive award programs are greatly oversubscribed.

New Markets Tax Credits
The New Markets Tax Credit (NMTC) Program attracts investment capital to low-income neighborhoods that have been left behind by the traditional private marketplace. Under the program, investors receive a tax credit for making equity investments in certified Community Development Entities (CDEs), which in turn use the proceeds to make loans and investments in businesses, real estate projects, and community facilities located in underserved low-income communities. To date, $57.5 billion of NMTC equity has been invested in distressed rural and urban communities, supporting a wide variety of activities including small businesses, manufacturing facilities, for sale housing, charter schools, health care centers, childcare centers, and shopping centers and grocery stores, to name but a few.

Community Reinvestment Act
The Community Reinvestment Act (CRA), enacted in 1977, requires banks to invest in the communities, including low-income communities, where they are conducting business. CRA has proven to be a critical, if not the most critical, resource available to facilitate the flow of private capital into underinvested communities. It has been successful not only for the communities and community residents that have benefitted from these investments, but also for the banks—which have managed to find new and profitable investment opportunities that generally perform as well or better than other bank investments. While CRA promotes many types of bank investments in lower income communities, it has been particularly impactful with respect to promoting affordable housing and homeownership opportunities for lower income families.

As successful as the CRA has been, its regulations had not been substantively updated since 1995 -- despite the fact that the banking industry has undergone significant changes in that period, most notably in the rise of interstate banking, internet banks, mergers of institutions, and mobile banking. However, in October of 2023, the bank examiners released finical regulations providing a much needed and welcome overhaul of the CRA examination procedures. The regulations were the result of significant public vetting over the last six years, and we believe reflect an appropriate balance between the needs of low income communities and the responsibilities of banks to demonstrate that they are meeting these needs while also fulfilling their safety and soundness requirements. The revised regulations also provide clarity and transparency to both banks and community development practitioners which we believe will result in a more functional and efficient community and economic development finance ecosystem.

Capacity Building for Affordable Housing and Community Development Organizations

HUD's Section 4 program strengthens the nation's lower-income urban and rural communities by bolstering non-profit community developers that build and invest in their neighborhoods. The program provides grants on a competitive basis to national intermediary community development organizations, which provide training, education, financial support, and development assistance to local community development corporations (CDCs). These funds are matched on a three-to-one basis, and then used to leverage additional private capital. Total aggregate leverage has consistently been in the range of $20 or more for each dollar of Section 4 funding.

From 2018 to 2022, Section 4 funds have been deployed by 984 CDCs and other nonprofit developers, resulting in the creation or preservation of more than 42,000 homes and the attraction of over $10 billion in investment to communities. The Section 4 program is the sole source of funding at HUD that provides financial support and development assistance to CDCs to support their housing and community revitalization efforts in all types of communities. LISC supports increased funding for the Section 4 program to provide additional capacity building support to CDCs serving urban, suburban, rural, and Native communities.

LISC also supports dedicated programs at USDA, including the Rural Community Development Initiative and the Rural Partnership Program, that similarly focuses efforts on providing training and technical assistance to nonprofit CDCs serving the unique needs of rural communities.

Community Development Block Grants

The Community Development Block Grant (CDBG) program is a critical source of community development funding that benefits low- to moderate-income (LMI) communities. Established in 1974, the block grant program allows grantees to meet locally identified needs, which promote inclusive approaches to community and economic development.

When disaster strikes communities, the Community Development Block Grant – Disaster Recovery (CDBG-DR) program provides the resources needed to rebuild, expand resilience capabilities, and strengthen post-disaster opportunities. Timely and well-targeted federal assistance is critical to an inclusive recovery, particularly in underserved and rural communities. But the current funding mechanism is cumbersome and inefficient, delaying the delivery of much-needed investments for aid and recovery and leaving disaster-stricken communities stuck in administrative limbo.

IV. Actions Needed from Congress

We urge Congress to continue its commitment to supporting affordable housing and community development efforts by enacting critically needed legislation, most of which has bipartisan support, that would expand existing programs or else create new programs where there are gaps in the housing and community development financing ecosystem.

Support production and affordability of rental housing.

1. *Enact the Affordable Housing Credit Improvement Act (S. 1557).*

This legislation, sponsored by Senators Cantwell and Young, includes about two dozen provisions to strengthen and improve the Housing Credit, and if enacted would result in the production of close to 2 million units of additional affordable housing over the next decade. It currently has the support of 30 Senators, split evenly among Democrats and Republicans. We have never seen an affordable housing production bill with such deep and widespread support in Congress, and this is by far the most important piece of legislation we can enact to help put a dent into our current housing crisis.

2. *Enact housing credit provisions in HR 2074.*

In a notable recognition of urgency of the housing crisis, two Housing Credit provisions drawn largely from the AHCIA were included in the tax bill that passed the House in December: a provision to restore an increase to the allocation of credits that expired in 2021, and a provision that would make it easier to utilize the housing credit alongside private activity bonds. These two provisions would create an additional 200,000 units of affordable housing over the next decade and could help serve as a critical bridge while we wait for enactment of the AHCIA.

3. *Enact the Rural Housing Service Reform Act (S.2790).*

LISC supports the bipartisan Rural Housing Service Reform Act led by Senators Smith and Rounds and supported by the majority of this Committee. This legislation would make long overdue updates to RHS programs, including allowing Section 521 Rental Assistance to continue at properties after the USDA mortgage matures. This will help owners leverage Housing Credits and debt to recapitalize these properties, while ensuring tenants continue to be stably housed. In addition, it permanently authorizes a delegated Section 502 Direct Loan Program for Native CDFIs, while updating USDA's home repair loan limits.

4. *Enact the Family Stability and Opportunity Vouchers Act (S. 1257)*

LISC supports additional rental assistance to ensure that our nation's lowest income families are provided the housing stability they deserve. Led by Senators Van Hollen and Young, this bill would fund new housing mobility vouchers to help allow families to live in areas of higher opportunity.

LISC also thanks Senator Scott for his leadership on the ROAD to Housing Act. We particularly appreciate the need to expand the Rental Assistance Demonstration program as a means to helping modernize and preserve affordable housing units, provided there are appropriate tenant protections.

We also applaud Senator Cortez-Masto's incredible leadership on housing and community development issues, including most notably the Federal Home Loan Banks Mission Implementation Act, the PRICE Act (S. 3264), and the HOME Reauthorization bill (S.3793). This trio of bills would lead to a significant increase in the development and rehabilitation of affordable housing financed through the federal home loan bank system, enhance and improve production of manufactured housing, and provide numerous reforms to HUD's HOME program. LISC strongly supports these legislative efforts.

Lastly, we support expanded asset building opportunities for residents of HUD-assisted housing, including public housing and those living in Section 8 Project-Based Rental Assistance properties. Congress should authorize a pilot program to expand the successful Family Self-Sufficiency Program by allowing increases in tenant income to be deposited into an escrow account. This would expand the ability for tenants to save for their goals.

Support Homeownership Opportunities

1. *Enact the Neighborhood Homes Investment Act (S.657).*

LISC, along with over three dozen other national organizations and trade associations focused on housing and community revitalization, is calling for the enactment of the Neighborhood Homes Investment Act. This bipartisan legislation, introduced by Senators Cardin and Young, currently has 8 additional cosponsors, with equal numbers of Democrats and Republicans.

Neighborhood Homes is designed to attract private capital to support investments in single family homes in distressed urban and rural communities -- where the costs of developing and rehabilitating homes exceed the value of the home. Modelled after the successful Low Income Housing Tax Credit, Neighborhood Homes would provide the developer or investor with a tax credit to cover this "value gap", for both for sale housing and for owner occupied rehabs.

Neighborhoods characterized by some combination of high poverty, low median family income and low home values would be eligible for investments. Neighborhood Homes Credit agencies would also have additional flexibility to serve rural communities, as well as communities impacted by natural disasters, that may not otherwise have qualified based on the initial Neighborhood Homes requirements.

As noted above, Neighborhood Homes would fill the gap between the cost of construction and the value of the property, with the private market bearing construction and marketing risks – much as is done with the Housing Credit. However, the Housing Credit, which was designed to create affordable rental housing for low- and very-low-income families, cannot readily be utilized to support homeownership housing. And while tax exempt private activity bonds and mortgage credit certificates (MCCs) do support homebuyers by reducing mortgage interest costs, these incentives do not address supply-side development cost gaps.

The Neighborhood Homes Tax Credit would fill a missing void in our affordable housing tax financing ecosystem, providing an effective and necessary tool for bringing starter homes on-line, while also revitalizing communities and providing affordable homeownership opportunities for first time and minority homebuyers. Over the next ten years, it is projected that Neighborhood Homes will result in the development or substantial rehabilitation of 500,000 homes.

2. *Enact the Whole Home Repairs Act (S. 3871).*

LISC supports Senator Fetterman and Lummis' Whole-Home Repairs Act. This bill is modeled off a successful Pennsylvania program, which created a one stop shop to help with home repairs and weatherization for underserved seniors and families.

3. *Enact the Stop Predatory Investment Act (S. 2224).*

We support the Stop Predatory Investment Act, led by Senator Brown, which would restrict tax breaks for large investors purchasing single family homes to convert to rentals.

4. *Enact the HELPER Act (S.1514).*

We support Senators Brown, Rubio, and Ossoff's Homes for Every Local Protector Educator and Responder Act (HELPER), which would create a new Federal Housing Administration first-time homebuyer program for teachers, law enforcement, and first responders.

5. *Enact the LIFT Act (S.2148).*

LISC supports the LIFT Act, led by Senator Warner, which would establish a program at HUD, working with Treasury, to provide low fixed-rate 20 year mortgages for first-time, first-generation homebuyers. This would allow borrowers to build equity at twice the rate of a conventional 30 year mortgage.

6. *Enact the Homebuyers Privacy Protection Act (S. 3502).*

We support Senators Reed and Hagerty's bipartisan Homebuyers Privacy Protection Act, since it would prohibit a credit reporting agency from selling information when a consumer applies for a residential mortgage.

Support Investments in CDFIs and Low-Income Communities

1. *Enact legislation supporting CDFIs.*

LISC applauds Senators Warner and Crapo for co-founding the Senate CDFI Caucus – which has grown to now include 24 Senators, 12 from each side of the aisle, including 10 members of the Banking Committee. This has been a great resource for furthering conversations about CDFIs, and has also resulted in the introduction of several key pieces of legislation, including:

- Scaling Community Lenders Act (S. 1442). Introduced by Senators Warner and Crapo, this legislation would expand and fund a secondary market loan-purchase program for loans issued by CDFIs.

- CDFI Bond Guarantee Program Improvement Act (S.869). Introduced by Senators Smith and Rounds, this legislation would reauthorize the program for four years, reduce the minimum issuance amount from $100 million to $25 million, and eliminate the cap on the annual number of guarantees. LISC is a participant in BGP and knows how important long-term capital is to CDFI lending efforts. These reforms will allow smaller CDFIs to be able to access the program and make it better able to assist smaller project sizes.

- Community Development Investment Tax Credit (S.2963). LISC supports this legislation, led by Senator Warner and Wicker, which would provide an incentive for private-sector investments in CDFIs. This bill would give a tax credit to investors that make equity or equity-equivalent investments in CDFIs or that provide them with long-term patient capital, investments the CDFIs then use for their financing activities in low-income communities. A CDFI tax credit would provide additional resources for CDFIs and help overcome funding limitations in the CDFI Fund's oversubscribed programs.

2. *Enact the New Markets Tax Credit Extension Act of 2023 (S. 234).*

NMTCs are predominantly used to support commercial revitalization, businesses and community facilities in lower income communities, and are one of the most effective of all federal economic and redevelopment programs – spurring over $120 billion of total investments in distressed communities and creating over 1 million jobs to date. LISC has deployed over $1 billion in NMTC financing since the program's inception, and we have seen first-hand how our investments in businesses, commercial real estate and community facilities have complemented our housing work and improved the lives of residents in our communities.

Though NMTCs cannot be used to support residential rental properties, some NMTC investments have nonetheless supported housing activities -- principally through investments in mixed-use commercial redevelopment projects that include on site housing, and to a lesser extent, homeownership activities. According to the Treasury Department, NMTCs have helped to finance over 18,000 affordable homes.

The NMTC Program is set to expire in 2025. The Senate should pass S.234, sponsored by Senators Cardin and Daines, which would permanently authorize the NMTC Program at $5 billion per year, and an inflationary adjustment, and allow the credit to be used to offset the Alternative Minimum Tax.

3. *Enact the Reforming Disaster Recovery Act (S. 1686).*

LISC supports the bipartisan Reforming Disaster Recovery Act since we've seen firsthand how it takes too long for CDBG-Disaster Recovery resources to reach communities. This bill would formally authorize CDBG-DR, leading to quicker delivery of resources, while streamlining administration of the program.

V. Conclusion

There can be little doubt we are currently in an affordable housing crisis. Rents have been rapidly climbing, supply has been tightening, costs of construction have been increasing, and we have underproduced roughly 3.8 million homes. On the single family side, home prices have cooled of late but still remain historically high, and elevated interest rates make it even more difficult for first time homebuyers to purchase a home. And sadly, homeownership disparities between racial and ethnic groups stubbornly persist, with little gains made over the past three decades. We face similar struggles at financing projects in our distressed urban and rural communities, despite the best efforts of the government to support critical community and economic development initiatives – including its support of the CDFI Fund.

The good news is that solutions are out there, and they have wide bipartisan support in Congress. Restoring the lapsed 12.5% increase to the formula allocation for the 9% housing credits and passing the Affordable Housing Credit Improvement Act will create close to 2 million <u>additional</u> affordable rental homes over the next decade than would otherwise be built, while also supporting nearly 3 million jobs and bringing in $120 billion in additional tax revenue.

Enacting the Neighborhood Homes Investment Act will create 500,000 new starter homes, providing homeownership opportunities for first time and minority homebuyers while simultaneously repopulating and revitalizing under-resourced rural and urban communities. Enacting the RHS Reform Act will help preserve rural affordable rental housing and expand homeownership opportunities for Native communities. And permanently extending the NMTC program will ensure that hundreds of billions more of private capital will be invested in our distressed rural and urban communities over the coming decade.

I thank you again for this opportunity to testify. I hope that the conversations we have today will bring us closer to enacting these and the other critical housing and community development bills addressed in this testimony and put us on a path to ensuring that all families in this country will be able to enjoy the health, well-being and financial security that an affordable home in a livable community provides.