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Testimony of Terri Ludwig
President and Chief Executive Officer
Enterprise Community Partners
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United States Senate

"Public Proposals for the Future of the Housing Finance System Part II"
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Chairman Johnson, Ranking Member Shelby and members of the Committee, thank you for the opportunity to testify this morning. I am Terri Ludwig, president and chief executive officer of Enterprise Community Partners (Enterprise). Enterprise is a national nonprofit organization that creates opportunities for low- and moderate-income people through fit, affordable housing and diverse, thriving communities. For nearly 30 years, Enterprise has provided financing and expertise to organizations around the country to build and preserve affordable housing and to revitalize and strengthen communities. Enterprise has invested more than $11 billion to create more than 280,000 affordable homes and strengthen hundreds of communities across the country.

Enterprise is a long-time provider of permanent debt financing, specializing in affordable multifamily rental housing. We have originated $560 million in loans on more than 17,000 affordable apartments and houses. We work with the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac and private lenders and partners. We are an FHA Multifamily Accelerated Processing (MAP) lender and Ginnie Mae issuer, a Special Fannie Mae Delegated Underwriting and Servicing (DUS) lender, a Freddie Mac Targeted Affordable Housing lender and a US Department of Agriculture Section 538 lender. In all of these programs, Enterprise underwrites and services loans on rental housing and either sells the loans to one of these entities or finances it with mortgage backed securities. This provides additional capital allowing us to undertake additional lending and development activities.

We greatly appreciate the leadership and initiative of Chairman Johnson, Ranking Member Shelby and other Committee members in convening these hearings and pressing for a thorough and comprehensive review of the housing market. Reforming the housing finance system in the wake of the recent financial crisis is of critical importance. The issues at hand are complex and have significant implications for the housing sector, the financial markets and the broader economy.

For 20 years, I worked in the private sector in investment banking, partnering with groups like Enterprise and using capital markets to effciently invest in affordable housing and community development. This experience taught me that public-private partnerships are absolutely critical to bringing capital profitably to working families in low-income communities. In countless communities across the country—rural, urban and suburban—the combination of public and private financing is effectively producing quality affordable housing.

Enterprise strengthens communities by bringing public and private capital together to meet local needs. We work in communities that range from small rural towns to large cities, from Native American tribal communities to suburban job centers. We know that housing is more than just a physical building—it is the place where people build their lives, create networks and send their children to school. Secure housing is best provided in communities with a diverse mix of affordable and market rate housing options; access to jobs and support; and strong commitments to the environment and civic participation. We work on holistic housing solutions so that people can live close to work or public transportation, in healthy and safe housing and in safe and vibrant communities.

We know that housing needs are not homogeneous. People in rural communities have different needs then those in urban centers. Some families need secure rental housing while others can benefit from sustainable homeownership. At Enterprise, we focus on local and community needs. We have helped to create communities with both stable homeownership opportunities for families and affordable and safe rental housing.

As the financial crisis has shown, America needs a spectrum of housing options. During the past 10 years, many borrowers had unsustainable home loans. The consequences have been disastrous. Millions of homeowners are under water on their mortgages. Irresponsible lending coupled with high unemployment has led to unprecedented foreclosure rates and vacant homes creating neighborhood blight. This crisis is undermining decades of progress that Enterprise and our national and local partners have made in revitalizing neighborhoods and bringing economic development, jobs and community safety improvements to underserved and low-income communities.

As the pendulum swings back to a more balanced housing policy and more homeowners look to the rental market, either out of choice or necessity, it is critical that Congress and the Administration ensure that affordable housing is available—this means ensuring that there is a stable source of capital and liquidity for affordable homeownership and rental housing.

In considering the next stage of housing finance and the government's role in it, we must maintain adequate capital flow, liquidity and stability for the multifamily mortgage market, both subsidized and unsubsidized. Any shift away from the current GSE structure must be done carefully and must ensure that viable affordable housing options—both homeownership and rental—exist in all communities. We must do no harm and take time to truly understand the consequences of housing finance reform on all borrowers and communities and all market segments. We urge Congress to consider how any new structure will impact the availability of credit to affordable housing and to ensure access to capital for all communities. This does not mean that we support the status quo. However, the GSEs have played a critical role in ensuring the availability of capital for affordable housing—through their loan purchases and securitizations as well as their investments in the Low Income Housing Tax Credit.

The Nation's Serious Affordable Housing Needs

The need for affordable rental housing is acute. The government cannot walk away from all government support of this market segment. We must think carefully before proceeding with a quick wind down of the GSEs without a successor financing system in place.

To begin, consider that in the United States today, there are 38.6 million units of rental housing,[1] and 32.6 million of those units are unsubsidized. Sixty percent of the unsubsidized rentals are in properties with four units or fewer.[2] Forty percent of households—12.3 million in all—are in unsubsidized buildings with more than five units. By contrast, the United States has 6 million units of subsidized rental housing.[3] One-third of these subsidized units are in properties with less than four units, and 4.5 million of the subsidized rental stock is in buildings with more than five units. More than 16 million units, or 47 percent, of rental housing is in buildings with 5 or more units, with more than 40 million people living in this housing.[4]

Eighty-three million people—a full one-third of the U.S. population—are renters. Only 25 percent of those eligible to receive housing subsidies actually receive any form of assistance. Thirty-eight percent of renters are cost-burdened, meaning they spend more than 50 percent of their monthly income on rent. And this number continues to grow: according to HUD, this population increased by 1.2 million, or 20 percent, between 2007 and 2009 alone. In general, renters have lower incomes than homeowners. The annual median income of a rental household is $28,400, while the median income for homeowners is $60,000. Half of all renters earn less than $25,000 a year, and a quarter live below the poverty line. There is no county in the United States in which a minimum wage worker can afford a one-bedroom apartment at the fair market rent.

The current stock cannot meet the demand for affordable housing, and the need continues to grow. According to the National Multi Housing Council, there will be an additional six million renter households between 2008 and 2015. Construction of and investment in multifamily properties has been severely curtailed amid the housing market crash. Multifamily housing starts in 2009 were just over 100,000, well below the annual average of 300,000 between 1995 and 2004. According to the Joint Center for Housing Studies at Harvard University, in 2009 there were 10.4 million extremely low-income renter households and only 3.6 million units affordable

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[1] Joint Center for Housing Studies of Harvard University. *America's Rental Housing*. 2011.
[2] Mortgage Finance Working Group, Center for American Progress; JCHS Rental Housing (2008).
[3] Census Bureau. *2009 American Housing Survey*; JCHS (2008)
[4]MFWG CAP paper, p.9

to those renters. Existing rental housing is older, and much is in need of rehabilitation and repair or outright replacement. There has been a steady loss of affordable units.

Financing Affordable Housing in the U.S.

This data demonstrates the tremendous need and demand for affordable housing in this country. Both the public and private sectors have critical roles to play in the affordable rental market. Without support from the GSEs, much of the supportive, affordable and workforce housing built in the past decade would not exist. The GSEs have been a constant and reliable source for the much-needed liquidity for the multifamily housing sector. They have been a long-term, reliable source of financing, especially for complex real estate developments in hard-to-serve areas, including rural and Native American communities.

Since 1996, the GSEs have provided more than $535 billion in multifamily mortgage debt to finance more than 11 million apartments. During the past two years, the GSEs have provided $94 billion in mortgage debt for affordable housing at a time when many other capital sources have left the market. [5] According to the Center for American Progress, the GSEs purchased more than 84 percent of all multifamily loans originated in 2009 alone.

According to the Joint Center for Housing Studies' recent report "…The only net additions to outstanding multifamily debt since 2008 have come from Fannie Mae, Freddie Mac, and the FHA…while the volume for all other financing sources combined dropped by $40 billion." We understand that private sector capital must be brought back into the rental housing market.

As the single-family market has struggled in recent years and even under government conservatorship, the GSEs' multifamily portfolios have performed well and are profitable. Between 2005 and 2009, Fannie Mae and Freddie Mac's share of delinquent or foreclosed single

[5] Robert Dewitt, NHMC and NAA. *House Financial Services Committee Hearing on the Future of Housing Finance.* March 23, 2010.

family loans rose from approximately 3 percent to 11.5 percent. **During the same period, the GSEs' share of delinquent or foreclosed multifamily loans remained at less than 1 percent.**[6]

Fannie Mae and Freddie Mac have played a critical role in the Low Income Housing Tax Credit market. During the past decade, the LIHTC program has produced 90 percent of all affordable multifamily housing in the United States.[7] Annually, this program generates 140,000 jobs and 1.5 billion in state and local taxes and other revenues. Before the financial crisis, the GSEs provided 40 percent of LIHTC investments, producing countless rental homes. But the financial crisis has meant the withdrawal of Fannie Mae and Freddie Mac, along with other financial institutions, from the LIHTC market. The shock of this caused investments in LIHTC to drop by 50 percent in 2008 from the $9 billion invested in 2007.[8] This has meant serious challenges for the affordable housing industry as we seek to preserve and build housing affordable to working families and vulnerable populations, including homeless Americans, seniors and those with disabilities. While the private market has moved in somewhat, the market remains volatile and there is a serious and real need for a stable entity to weather the storms of the market.

I would like to take a moment to explain what these numbers mean for some of your constituents. Jordan's Gate, located in rural Opelika, Alabama, provides 48 affordable rental homes for families earning up to 60 percent of the area median income – a little more than $13,000 a year. It was made possible in part by permanent debt originated by Enterprise and purchased by Fannie Mae, as well as Low Income Housing Tax Credit equity that was purchased in part by Freddie Mac through an Enterprise multi-investor fund. Residents have access to playgrounds and computer centers. Importantly, residents also have access to a day care center, providing a safe place for children while their parents are at work. Were it not for the support from the government-sponsored secondary market, this development and many others would not exist.

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[6] Michael Bodaken, National Housing Trust. *House Financial Services Committee Hearing on the Future of Housing Finance.* September 29, 2010.
[7] National Council of State Housing Agencies
[8] Roberts, Buzz. *Strengthening the Low Income Housing Tax Credit Investment Market.* Cascade: Federal Reserve Bank of Philadelphia. Fall 2009.

Principles for Housing Finance Reform: Liquidity, Stability and Affordability

Any new housing finance system must provide liquidity, stability and affordability. Access to capital for underserved communities—whether small rural towns, tribal communities or low-income urban neighborhoods—must be preserved. In general, we believe that the government should have a role, albeit more limited, in the housing system.

CDFIs, small community banks, credit unions, regional banks, large national banks, state Housing Finance Agencies, the Federal Home Loan Bank System and national intermediaries are all needed in a robust housing finance system. Any new housing finance system should ensure choices and access to capital for all communities and for all lenders. A return to the redlining of the 1970s is not acceptable—no one should have to pay more for a mortgage because they live in a certain place.

Our guiding principles are as follows:

- The government must play a role in housing finance to ensure liquidity, stability and affordability.
- The government's role should be focused and targeted on affordable housing, including both rental and homeownership housing.
- Mortgage financing should be available to creditworthy borrowers in all communities. Rural areas and economically distressed areas should have access to capital for affordable sustainable homeownership and rental housing through both the primary and secondary markets.
- Secondary market entities that enjoy federal support should carry an affirmative obligation to finance affordable and sustainable homes and to reach underserved people,

markets and needs, including low- and moderate-income people; low-income communities and rural areas; and our most vulnerable populations.

- Responsible, sustainable mortgage products are critical to ensuring that all Americans have access to affordable homeownership.

- FHA provides an important mechanism for government involvement in the housing market, particularly as a counter-cyclical resource available to take on risk that the private sector cannot or will not. However, to ensure a robust secondary mortgage market and appropriate risk-sharing, other ways to provide mortgage securitization are necessary. Further, changes are needed in structure, personnel rules and risk-sharing programs to make FHA an optimally effective provider of capital for affordable housing.

- A small assessment on mortgage backed securities should be used to fund affordable housing, through mechanisms such as the National Housing Trust Fund and the Capital Magnet Fund, and through risk sharing and credit enhancements to leverage participation in meeting specific needs through secondary market investments.

- Any new housing finance system must ensure a purposeful presence in the market for multifamily housing. We cannot rely on the private sector alone to provide financing or to continue to invest in the Low Income Housing Tax Credit (LIHTC) and other proven, efficient public-private programs.

- Credit channels for multifamily housing must remain open during the transition period between the current and any future system.

Conclusion

Any movement from the current GSE structure must be done carefully and over time to avoid a further weakening of the housing market. The GSEs are imperfect partners, but served an important role in providing access to credit that would otherwise not be available. We are working to develop more specific recommendations for the future of the housing finance system.

However, we are clear on the three main principles that should serve as the basis for any new system: 1) maintaining liquidity for the multifamily mortgage market; 2) doing no harm to the aspects of the housing finance system that are working; and 3) protecting affordability and the underserved. Our principles outline the most important considerations from Enterprise's perspective as a national intermediary that has invested in affordable housing and community development for nearly 30 years. Above all, we support a housing finance system that provides liquidity, stability and affordability. We look forward to working with you as you further consider changes to our housing finance system. I appreciate the opportunity to testify and look forward to your questions.