



April 14, 2017

The Honorable Mike Crapo
Chairman of the Senate Banking Committee
239 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member of the Senate Banking Committee
713 Hart Senate Office Building
Washington, DC 20510

Re: Legislative Proposals to Increase Economic Growth

Dear Chairman Crapo and Ranking Member Brown:

On behalf of Enterprise Community Partners, thank you for the opportunity to provide input on legislative proposals that will promote economic growth and enable consumers, market participants and financial companies to better participate in the economy.

Enterprise is a national nonprofit organization that helps to finance, build and advocate for affordable housing for low- and moderate-income families. We believe that an affordable home in a thriving community is the first rung on the ladder of opportunity – an essential platform that gives families a fair shot at success. Over the past 33 years, Enterprise has helped build or preserve nearly 358,000 affordable homes across all 50 states, invested \$23.4 billion into communities and touched millions of lives.¹

At the most basic level, in order for our economy to function, America’s workers need both a stable place to call home and a reliable way to get to their jobs. Unfortunately, after years of stagnant wages and skyrocketing rents, a quality and affordable home is out of reach for millions of Americans today.

As mentioned in the Republican National Convention’s 2016 Platform, an unprecedented 12 million renter households are “housing insecure,” meaning they pay at least half of their monthly income on rent and utilities.² As a result, too often America’s renters are faced with impossible tradeoffs – pay rent or buy groceries, pay the electric bill or put gas in the car – with profound impacts on their long-term health and economic prospects. And many have no choice but to live far away from their jobs: for the typical metropolitan commuter, only about a quarter of jobs in low- and middle-skill industries are accessible via a reasonable transit commute.³

Harvard sociologist Matthew Desmond documents the human toll of housing insecurity in his Pulitzer Prize winning book, *Evicted: Poverty and Profit in the American City*. The book tells the stories of eight families cycling through economic disaster in Milwaukee, Wisconsin – children, parents and disabled adults forced to move from place to place and endure heartbreaking hardships just to make rent. “So many go on paying most of what they have to live with lead paint, exposed wires and broken plumbing,” Mr. Desmond writes. “Saving and stability become wishes, and some days children go hungry because the rent eats first.”

This worsening affordable housing crisis isn't just bad for renters — it's also a drag on our country's economic growth. According to one study, the dearth of affordable housing options costs the U.S. economy an estimated \$1.6 trillion each year in lost wages and productivity alone.⁴ That is one reason why housing investments are considered one of the most effective ways to stimulate the economy and create jobs. In fact, a recent analysis from Enterprise found that both the speed and impact of public investments in housing either matched or outpaced those of other infrastructure investments, such as transportation.⁵

There are several major factors contributing to America's growing rental affordability crisis:

- *As more households delay or forego homeownership, demand for rental housing has grown significantly.* In the wake of the foreclosure crisis, a growing number of Americans are turning to the rental market — some by choice, some because they have no other option due to excessively tight credit standards for mortgages.⁶ The U.S. homeownership rate currently stands at just 63.7 percent — near a 30-year low — and analysts expect the rate to keep falling as the number of new renters outpaces the number of new homeowners.⁷
- *Rental supply is not keeping up with the rising demand, especially on the lower end of the market.* Developers of rental housing have ramped up construction in recent years to meet the growing demand, but the current level of production is still falling well short of the need. In addition, the vast majority of multifamily construction is for the higher end of the rental market: the median asking rent for new apartments in 2015 was nearly \$1,400, or about half of the median renter's monthly income.⁸
- *As wages have stagnated for low- and moderate-income workers, the cost of living is increasing.* While the American labor market continues to improve, the wages earned by most American workers have not kept pace with the rising cost of living. After adjusting for inflation, the typical renter's income has fallen by more than 9 percent since 2001, while the median rent has increased by 7 percent.⁹
- *While need has skyrocketed, public resources for affordable housing have remained flat or even decreased.* Recent budget cuts at the federal, state and local levels have hit housing and community development programs particularly hard. For example, the number of very low-income renters who qualify for rental assistance subsidies increased by 18 percent between 2003 and 2013,¹⁰ while annual funding to HUD's primary rental assistance programs has stayed relatively flat.¹¹

Here's the good news: America has tackled massive, seemingly intractable housing problems in the past, with support from both sides of the aisle, and we can do it again. Below are six concrete steps the Senate Banking Committee can take to address the problem, improve the productivity of the American workforce and bolster economic growth:

1. Expand support for renters as part of any effort to reform America's mortgage finance system.
2. Attract private investment to repair America's crumbling public housing.
3. Support federal tax incentives that use private sector capital to build and preserve affordable housing.
4. Reject proposed cuts to crucial affordable housing programs.
5. Create a new federal fund to help test and scale innovative financial products that encourage low-income households to save, with a primary focus on unrestricted emergency savings.
6. Invest in affordable housing that connects low-income workers to jobs via transit as part of our critical infrastructure.

1. Expand support for renters as part of any effort to reform America's mortgage finance system

Since Fannie Mae and Freddie Mac (collectively the GSEs) were placed under government conservatorship in 2008, the two companies have been at the center of a high-stakes debate over the future of housing finance in the U.S. and the appropriate role of government in the housing market. Any reforms to our housing finance system will have a profound impact on the cost and availability of housing for homeowners and renters across the country.

Without access to safe and affordable mortgage credit — such as the 30-year, fixed-rate mortgage with a low down payment — it would be very difficult for low- and moderate-income families to achieve sustainable homeownership, which remains a key pathway to the middle class. And if homeownership is out of reach for middle-income families, competition increases for affordable rental options, which are already in short supply. At the same time, access to long-term, fixed-rate debt is essential for owners and developers of rental housing to keep costs low and rents affordable. That's especially true for owners of subsidized rental housing — such as properties financed with Low-Income Housing Tax Credits or Section 8 rental assistance — who often rely on long-term, fixed-rate financing from the GSEs to make a project financially viable.

In order to create a more stable, liquid and accessible housing finance system that works for the full spectrum of renters and homeowners in the U.S., we recommend that the following policies be a part of any reform effort:

- Establish an explicit, limited and paid-for government guarantee on qualifying single-family and multifamily mortgage-backed securities, with private investors taking a loss before taxpayers.

- Preserve Fannie’s and Freddie’s current multifamily businesses at Fannie and Freddie — both of which remained steadily profitable and supported low-income renters throughout the recent housing crisis — while ensuring that those businesses continue to focus on affordable rental housing.
- Establish an annual assessment of at least 10 basis points on all government-insured mortgage-backed securities — including those insured by the Federal Housing Administration — to fund affordable housing initiatives through the National Housing Trust Fund and the Capital Magnet Fund.
- Ensure broad access to the mortgage market for all eligible borrowers and support to small lenders, particularly those in low-income urban and rural areas.
- Continue to test the securitization of small multifamily loans, which are a crucial source of affordable rental housing for low-income families.
- Preserve the dual mission of the Federal Housing Administration — providing both low-down-payment mortgages to creditworthy borrowers and countercyclical liquidity to the mortgage market — while taking steps to shore up the agency’s long-term financial health.

Enterprise strongly supported the general approach to reform laid out in the Housing Finance Reform and Taxpayer Protection Act of 2014, also known as Johnson-Crapo, which passed the Senate Banking Committee in May of 2014. We look forward to working with members of the committee to strengthen that proposal in the coming months. For more details on Enterprise’s recommendations for housing finance reform, see our testimony before the committee in October 2013.¹²

2. Attract private investment to repair America’s crumbling public housing

After decades of underinvestment, many of the country’s 1.1 million units of public housing are in need of significant capital investment. According to HUD, the aging stock has a backlog of at least \$26 billion in unmet capital needs,¹³ and an estimated 10,000 public housing units are lost entirely each year to obsolescence and decay.¹⁴ Meanwhile, every \$1 billion spent on capital projects creates approximately 26,000 jobs on average.¹⁵

Preserving at-risk public housing must be a key component of federal housing policy, and HUD’s Rental Assistance Demonstration (RAD), which has been underway for several years now, is allowing public housing authorities to do just that. By converting the funding stream for dilapidated projects from public housing to Section 8, local housing authorities are able to leverage private financing to make much-needed repairs and preserve long-term affordability. A recent evaluation of the program found that for every \$1 of HUD funds that go into these properties, public housing authorities are able to leverage \$9 of outside financing.¹⁶ Congress has authorized local housing authorities to convert 185,000 units of public housing under RAD,

but the number of applications that HUD has received to date vastly outnumbers this authority.¹⁷ We urge the committee to remove the RAD cap and devote the federal resources necessary to preserve every viable unit of public housing through RAD.

3. Support federal tax incentives that use private sector capital to build and preserve affordable housing

The Low-Income Housing Tax Credit, also known as the Housing Credit, has financed virtually all of the country's affordable housing construction since it was signed into law by President Reagan in 1986. The program has enjoyed bipartisan support since it was created. In addition to harnessing private investment capital, the program enables private developers, nonprofit organizations, faith communities, housing authorities and others to meet the housing needs in their communities. The Housing Credit is also a boon to local economies: each year it creates more than 90,000 affordable homes and supports over 100,000 jobs, mostly in the construction industry.¹⁸ The program is an undeniable success story in public-private partnerships, and must be preserved as Congress and the Administration consider tax reform.

Though the Housing Credit has made a significant dent in our affordable housing crisis by financing nearly 3 million apartments over its 30-year history, current allocation levels fall well short of the need, and more could be done to make the program more flexible, streamlined and better able to serve the hardest-to-reach populations and areas. The Housing Credit has not been expanded since 2000, and developers now request more than twice the amount of Housing Credits than are available each year, meaning hundreds of viable developments that would serve low-income families in need are turned down because of scarcity of tax credits.

As Congress turns towards comprehensive tax reform, it is critical to not only preserve the Housing Credit, but also to expand and strengthen the program's ability to reach the millions of renter households struggling to afford rent. In March 2017, Sens. Maria Cantwell (D-WA) and Orrin Hatch (R-UT) introduced the Affordable Housing Credit Improvement Act of 2017, which would expand Housing Credit allocation authority by 50 percent and strengthen the Housing Credit through nearly two-dozen provisions intended to increase flexibility and streamline program administration.

The New Markets Tax Credit (NMTC) is another important federal tax incentive that stimulates economic growth in low-income urban and rural communities by increasing the flow of patient, flexible capital in some of the most distressed neighborhoods in the nation. By providing a modest tax incentive to private investors, the NMTC finances developments in communities that otherwise would not have the resources or capital to meet community needs. Since 2003, \$42 billion in direct NMTC investments were made in businesses, leveraging nearly \$80 billion in total capital investment and generating about 750,000 jobs.¹⁹ The NMTC also boosts tax revenue for state and local governments and enhances the quality of life in distressed communities through the development of community amenities like healthcare facilities, schools, nonprofit service providers and child care centers.²⁰

Despite the NMTC's success at revitalizing distressed communities and creating economic opportunity in high-poverty neighborhoods, the credit is not a permanent part of the tax code; it was originally authorized in the bipartisan Community Renewal Tax Relief Act of 2000 and was extended through 2019 in the 2015 PATH Act. Senators Roy Blunt (R-MO) and Ben Cardin (D-MD)) recently introduced the New Markets Tax Credit Extension Act of 2017 (S. 384), which would permanently extend the NMTC, increase annual NMTC allocation authority and index the allocation to inflation in future years.

While both the Affordable Housing Credit Improvement Act and the New Markets Tax Credit Extension Act are under the Finance Committee's jurisdiction, we urge members of the Senate Banking Committee to support these bipartisan efforts to encourage economic growth for the people and communities with the greatest needs.

4. Reject proposed cuts to crucial affordable housing programs

The Trump administration's budget outline, or "skinny budget," for fiscal year 2018 proposes a number of draconian cuts crucial affordable housing programs. As the need for affordable housing continues to grow, the administration has proposed cutting the Department of Housing and Urban Development's (HUD) budget by \$6.2 billion, a decrease of 13 percent from current spending levels, along with further cuts to programs at the Treasury Department and USDA.²¹ Some of the most troubling proposals in the skinny budget include:

- Zeroing out the Community Development Block Grant (CDBG) program and HOME Investment Partnerships Program – two programs that, in the true spirit of federalism, provide flexible funds to states and local governments to meet their local housing and community development needs while creating jobs.
- Eliminating the Section 4 Capacity Building Program, which would significantly diminish the capacity of local community development corporations and other organizations to build and preserve affordable housing.
- Eliminating the Treasury's Community Development Financial Institutions (CDFI) Fund, which has been a model for public-private partnerships for more than two decades.
- Significant cuts to federal rental assistance programs, including Section 8 vouchers and public housing – two programs that are already critically underfunded. Today only 23 percent of households who are eligible for federal rental assistance actually receive it, resulting in waiting lists that are tens of thousands of families long in some communities, and often even lotteries for rare openings.²²

Even though appropriation decisions are beyond the jurisdiction of the Senate Banking Committee, we urge members of the committee to reject these proposed cuts and, at a bare minimum, push for the preservation of current appropriation levels to HOME, CDBG, Section 4, Section 8, public housing, the CDFI Fund and other crucial affordable housing programs.

5. Create a new federal fund to help test and scale innovative financial products that encourage low-income households to save, with a primary focus on unrestricted emergency savings

As a general rule, financial advisors recommend that families keep at least three months of rent and other household expenses as liquid savings, in part because it can take at least that long to find a new job after a sudden job loss.²³ Unfortunately, millions of families – most of them low-income households – are falling woefully short of that goal. According to NeighborWorks America, more than one-third of Americans have no emergency savings – up from 29 percent a year ago – and another 25 percent only have enough saved to get by for a month or less if necessary.²⁴ Half of all families who earn less than \$40,000 per year have no emergency savings whatsoever, and a significant portion of these households likely have a negative net worth.²⁵ Without adequate savings, low-income families often have no choice but to turn to expensive sources of short-term credit – such as credit cards, title loans or payday lenders – in times of crisis or even just to make ends meet.²⁶

The federal government has a long history of supporting savings and asset-building among low- and moderate-income families, but these programs are often tied to specific long-term financial goals.²⁷ There are currently no major federal policies that are designed to encourage unrestricted emergency savings among low-income people.²⁸ We recommend that Congress create a new federal fund to support the development and expansion of new financial products that encourage unrestricted emergency savings among low-income families. The fund would provide competitive grants, low-interest loans and other forms of assistance to eligible nonprofits, private companies and state and local government entities with the most innovative ideas and a demonstrated need for federal support. For products that have already proven to work in a cost-effective way, Congress should consider targeted policies that bring those products to scale.

In addition to the new fund, Congress should significantly expand HUD's Family Self-Sufficiency (FSS) program, which allows certain recipients of federal rental assistance to put a portion of their monthly rent payments toward long-term savings. A 2011 HUD study of the FSS program found that families who successfully graduated from the program ended up with an average of \$5,300 in savings, with 63 percent of enrollees either graduating or remaining in the program after four years.²⁹ Despite these successes, the FSS program has remained relatively modest in size, mostly due to funding constraints.

6. Invest in affordable housing that connects low-income workers to jobs via transit as part of our critical infrastructure

By definition, infrastructure is the physical structures and networks that are necessary for the economy to function. But too often federal infrastructure investments are limited to roads, bridges, trains, airports and waterways. Any comprehensive infrastructure package must also

include investments in affordable rental housing, particularly along transit hubs that provide access to jobs, healthcare and other essential resources.³⁰

Including affordable housing in transit-oriented development (TOD) is a win-win-win: it helps families access more jobs and services; it helps employers access a broader workforce; and it helps transit systems reach a wider population of frequent users.³¹

To accomplish that goal, as part of any future infrastructure investment Congress should provide more flexibility in funding programs – particularly the Department of Transportation’s Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) programs – to support the non-transportation portions of TOD projects that include affordable housing. This new flexibility, as well as lowering the minimum project cost requirement to accommodate smaller projects, can help local and regional governments better serve low-income and rural communities.

Next Steps

Housing insecurity is a burden borne quietly and behind closed doors by families in all types of communities—urban, suburban and rural. Almost half of respondents to a recent national poll said that they struggled to make rent or pay their mortgage in the past year, or know someone who has. Additionally, nearly two-thirds of those respondents believed that Congress is not doing enough to make rent more affordable.³²

For too long we’ve let America’s workers — the backbone of our economy — languish in unsafe or unaffordable housing that’s disconnected from jobs, good schools and other opportunities. It’s time to make the investments necessary to ensure that every American has access to the resources they need to realize their full potential.

Again, thank you for the opportunity to offer the above proposals. If you have any questions or would like to schedule a time to discuss any of these ideas in more detail, please contact me at mmcfadden@enterprisecommunity.org, or Emily Cadik, Enterprise’s Director for Public Policy, at ecadik@enterprisecommunity.org.

Sincerely,

Marion McFadden
Vice President for Public Policy
Enterprise Community Partners, Inc.

ENDNOTES

¹ Learn more at www.EnterpriseCommunity.org.

² Andrew Jakobovics Allison Charette, Ellen Tracy Marya, Chris Herbert and Daniel T. McCue, *Projecting Trends in Severely Cost-Burdened Renters*, Enterprise Community Partners and the Harvard Joint Center for Housing Studies (2015): <http://www.enterprisecommunity.org/resources/projecting-trends-severely-cost-burdened-renters-13350>.

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¹⁰ Ibid.

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