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On "Expanding Homeownership Opportunities"

For the Senate Committee on Banking

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Introduction and Overview

Thank you, Chairman Shelby, Ranking Member Sarbanes and Committee members for this opportunity to share with you The Enterprise Foundation's views on expanding homeownership for low-income and minority families.

Enterprise is a national nonprofit organization that puts private capital to work in low-income communities across the country, primarily to produce affordable housing for working families. We have invested nearly $4 billion to produce more than 144,000 affordable homes nationwide. We are currently investing half-a-billion dollars a year in the people, community-based groups and bricks and mortar developments that are revitalizing some of our nation's most disinvested neighborhoods. Affordable homeownership is an increasingly important activity for Enterprise and our local partners.

Before addressing the subject at hand, a word of thanks is in order. No federal policy is more effective in producing affordable *rental* housing than the Low Income Housing Tax Credit (LIHTC). We thank Housing Subcommittee Ranking Member Reed for his efforts to ensure that the recent tax bill did not adversely affect the LIHTC. We are also grateful to Committee members Senators Bayh, Chafee, Corzine, Johnson, Sarbanes and Stabenow for expressing their strong support for this critical program during Senate consideration of the bill. We urge all Senators to ensure that any future tax proposals hold harmless the LIHTC and other community development tax incentives, such as the New Markets and Historic Rehabilitation Tax Credits.

We thank the Committee for its interest in the important subject of affordable homeownership. We commend President Bush and Secretary Martinez for their commitment to increasing minority homeownership by 5.5 million families by 2010. We are working with the administration and many other organizations to help achieve that ambitious goal.

Our testimony addresses four issues: 1) homeownership's importance in revitalizing low-income communities; 2) the need for more affordable for-sale housing in those areas; 3) federal policies to expand low-income homeownership and community development; and 4) other important elements of a holistic housing policy. Our experience draws from many urban areas, but our testimony particularly addresses our experience in one community: Sandtown-Winchester in Baltimore, Maryland. We also reference recent research that shows that Sandtown's homeownership successes and challenges reflect larger trends and lessons.

Homeownership's Importance in Revitalizing Low-Income Communities

We suspect that the Committee will hear a great deal in connection with this hearing about homeownership's benefits for families, which can include wealth accumulation, greater stability and increased civic engagement. These benefits may be especially pronounced for low-income families. Homeownership also can have important benefits for low-income communities, especially as part of broader revitalization strategies.

Enterprise's experience in Sandtown-Winchester provides a good example. Sandtown is a 72 square block community in West Baltimore that was once one of the most vibrant African American neighborhoods in the city. By the time Enterprise, the City and Sandtown churches and residents began a comprehensive community revitalization initiative in the early 1990s, however, Sandtown had become one of Baltimore's most troubled neighborhoods. All the indicators of distress—inadequate housing, widespread blight, high crime, poor schools, rampant unemployment and drug abuse—were present at alarmingly high levels.

Today, Sandtown is starting to turn around. In the 1990s, Sandtown's homeownership rate more than doubled and property values increased dramatically. Median family incomes rose 22 percent, after accounting for inflation. Unemployment and property vacancies each declined by one-third. In recent years, crime has decreased substantially. Elementary school test scores have improved significantly.

After decades of disinvestment and decay, hope—and new investment—is coming back to Sandtown. Large-scale development of affordable for-sale housing is at the heart of Sandtown's recent progress. Enterprise has developed nearly 400 for-sale homes in the area. Another 200-plus are in the pipeline. We also have provided financing to help Habitat for Humanity build another 200 homes in the neighborhood. Virtually all these homes have sold to low-income working African American families.

To be sure, Sandtown still faces many daunting challenges. Homeownership, incomes, employment and educational attainment levels are still too low. Crime and addiction are too high. But the progress and momentum in Sandtown is undeniable and homeownership is a big reason why. Researchers from the Johns Hopkins University Institute for Policy Studies concluded:

> This analysis suggests that Sandtown-Winchester's increase in median sales prices between 1990 and 1999 is associated with its comprehensive approach to neighborhood revitalization, in general, and its successful physical capital improvements, in particular. Sandtown's approach centers on public-private-nonprofit partnerships that incorporate—in order of descending importance—physical capital, CDCs [community development corporations], homeownership and social capital. It has succeeded in physical capital development, and in combining homeownership initiatives with the development of social capital through CDCs and other neighborhood-based organizations.[i]

Sandtown is far from the only place where housing investment—homeownership and rental—is helping drive broader neighborhood improvements. In its year-long, comprehensive analysis of housing challenges and solutions, the bipartisan Millennial Housing Commission found:

> Both theory and empirical evidence suggest that when several owners fail to maintain their properties, others nearby follow suit because their neighbors' inaction undermines property values. Rundown and abandoned properties can have a contagious effect that accelerates neighborhood decline.
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> Replacing or upgrading distressed properties is therefore a precondition for neighborhood revitalization. Indeed, public investment in housing often triggers private investment that ultimately lifts property values. Although larger economic and social forces can undermine such efforts, recent comprehensive community development projects suggest that concentrated public investment in mixed-income housing can initiate neighborhood reclamation.[ii]

The Need for More Affordable For-Sale Housing in Low-Income Communities

The magnitude and impact of the homeownership development in Sandtown is especially striking in light of the conditions the community faced as the revitalization initiative began a decade ago. The homeownership rate was less than 11 percent and more than 600 vacant homes in various states of distress blighted the neighborhood. By necessity, large-scale homeownership development was central to the revitalization strategy from the outset.

Other parts of the country face a supply shortage of decent, affordable for-sale housing as well. According to Harvard's Joint Center for Housing Studies and the Brookings Institution:

> Many low-income renter households may be in a position to overcome the wealth and income constraints on buying a home, but will still be constrained by a lack of adequate housing units at an appropriate price in a desirable location. Supply-side constraints on homeownership deserve greater attention from researchers and policymakers.
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> Affordable homes for ownership are being lost to house price inflation and vacancies…On net there were about a half-million fewer affordable owner-occupied homes in 1999 than in 1997. The result, based on one set of underwriting assumptions, is that the share of owner-occupied homes affordable to low-income households fell from 47 percent to 44 percent of the stock from 1997 to 1999.
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> When adjustments for variables that usually affect homeownership are made, the stock of homes plays a significant role in determining homeownership for low-income households. The presence of single-family and new homes contributes to higher homeownership by low-income households. Yet very few non-mobile units are being added to the stock at affordable levels. Policymakers need to recognize the failure of filtering as a mechanism to expand the supply of affordable homes.[iii]

Several years ago, the National Housing Conference's Center for Housing Policy found that between 1997 and 1998, 200,000 working renter families in 17 major metropolitan areas could afford to purchase three-plus-bedroom houses priced between $50,000 and $75,000. But only 30,000 homes in that price range were available in those locations.[iv] Just last month, the Center released a new report on homeownership and rental housing needs in 60 of the nation's largest housing markets. The report found that families who depend on a teacher or police officer's salary are priced out of homeownership in roughly half those jurisdictions. Families that depend on the salaries of a janitor or retail sales person cannot reasonably afford the median priced home in *any* of those 60 metropolitan areas. (Nurses are shut out in 57 of the 60 areas.) The report notes that these professions are often occupied by people entering the workforce for the first time, perhaps transitioning from welfare, and that they play vital roles in their communities.[v]

Enterprise's experience is that the shortfall of for-sale housing is especially acute in low-income and minority neighborhoods. One of the biggest barriers to expanding the supply of affordable, for-sale homes in many of these communities is that it often costs more to build or rehabilitate housing than market prices will support. This market failure denies low-income people homeownership opportunity and prevents low-income neighborhoods from reaping the broader benefits that often accompany increased homeownership.

As we have seen in Sandtown and elsewhere, the market can work—low-income people will buy in "distressed" communities, to their and the neighborhoods' benefit—if homes are available. We also see in Sandtown, as in many other communities, the need for more homeownership resources. The next major phase of homeownership development has moved slowly largely due to a lack of resources.

Federal Policies to Expand Low-Income Homeownership and Community Development

The largest federal subsidies for homeownership—the federal income tax deductions for mortgage interest and property taxes and the capital gains tax exclusion for home sales—overwhelmingly benefit upper income homeowners and more affluent communities. In fiscal year 2003, these provisions cost $110 billion, three-and-a-half times the size of the entire budget for the Department of Housing and Urban Development (HUD).

There are, however, a few federal initiatives that expand homeownership opportunity for low-income people and help strengthen low-income neighborhoods and the grassroots groups that serve them. Among the most effective existing programs are the following:

The HUD "Section 4" program, which provides operating support and technical assistance to community-based groups through national intermediaries that must leverage at least three dollars of private matching funds for every federal dollar. Section 4 funds help grassroots groups hire and retain staff, invest in technology, improve management and operations, enhance staff expertise and form new partnerships. Many of the community-based partners Enterprise assists with Section 4 funds are increasing their homeownership activities as a result of Section 4 assistance. Enterprise is requesting that Congress provide $40 million in Section 4 funds for Enterprise and the Local Initiatives Support Corporation to split equally for fiscal year 2004.

The HOME housing block grant, which provides flexible funds to states, cities and grassroots groups for homeownership development, repair and downpayment assistance, as well as rental apartment development and tenant rental help. Nearly 60 percent of HOME funds have been used for affordable homeownership, assisting more than 418,000 low-income people.[vi] Enterprise is recommending that Congress fund HOME at $2.9 billion for fiscal year 2004. Enterprise supports the administration's proposed expansion of the homeownership downpayment set-aside program. We would note that the set-aside is unnecessary, since HOME already allows jurisdictions to provide downpayment assistance. We urge Congress to refrain from enacting any additional set-asides within HOME and to fund existing set-asides only to the extent they do not reduce formula funding for the block grant.

The Treasury Department's Community Development Financial Institutions (CDFI) Fund, which leverages private sector support for community-based financial institutions that provide a variety of affordable homeownership development, financing and counseling services, as well as rental housing support. The CDFI Fund is placing priority on expanding homeownership in the current fiscal year. Enterprise is requesting that Congress provide $80 million for the Fund for fiscal year 2004.

The Federal Housing Administration's Asset Control Area initiative, which enables local governments and qualified community groups to take abandoned, foreclosed homes off the federal government's hands for rehabilitation and resale to buyers in distressed areas. The ACA initiative has the potential to boost low-income and minority homeownership and help stabilize neighborhoods ravaged by large numbers of vacant properties. ACA participants in 15 jurisdictions have been operating under individual agreements with HUD. The Department is currently negotiating new agreements with participants under more uniform criteria. In general, those negotiations have been productive.

Enterprise remains concerned about two issues, however: 1) HUD has been slow in negotiating final agreements, which is threatening the progress of the private-public partnerships that most ACA participants had carefully developed under their prior agreements; and 2) the Department has in some instances applied a narrow interpretation to the flexible statute that limits the program's potential. We and other ACA program participants are disappointed that HUD has not to date allowed ACA participants to sell homes for market value, receive reasonable compensation for development activities and convert a limited portion of multi-unit properties into rental housing where necessary. We continue to work with the Department on these issues and will keep the Committee fully informed. We greatly appreciate the strong support Senators Sarbanes and Reed have shown for the ACA program.

In addition to these existing initiatives, Enterprise strongly supports the proposed <u>Homeownership Tax Credit</u>. An unusually broad coalition of housing organizations supports the proposal (please see attached list). Bipartisan bills have been introduced in the House and Senate to enact the Credit. The Senate bill, S. 875, is sponsored by Senators Kerry and Santorum. We thank Committee members Allard, Bayh, Crapo, Hagel, Johnson, Sarbanes, Schumer and Stabenow for cosponsoring this bill. We urge the other Committee members, and all other Senators, to join them.

The Credit is designed to address the market failure mentioned above that shuts out so many low-income families and communities from homeownership opportunity: the gap between development costs and market value of affordable, for-sale housing in low-income areas. The proposal is based on the highly effective Rental Credit (LIHTC) and could do for homeownership what the Rental Credit has done for affordable apartment development. The Homeownership Credit has the same sound principles as the Rental Credit of state administration and flexibility, private sector competition and oversight and a strong role for community-based groups. The same highly efficient system of state administrators, corporate investors and community-based and for-profit developers that have made the Rental Credit so successful would readily embrace and effectively utilize the Homeownership Credit.

In addition to expanding homeownership opportunity for low-income people, the Credit would help stabilize disinvested neighborhoods and contribute to their revitalization. The Credit recognizes the critical role homeownership can play in community development by targeting resources to low-income and economically disadvantaged communities, including rural and Native American areas. The Credit also would have significant economic benefits. The 50,000 homes it would produce each year would generate 122,000 jobs, $4 billion in wages and $2 billion in federal, state and local revenue annually. For these reasons, the Homeownership Credit is just what Sandtown and so many other urban and rural low-income communities need to help them continue their progress.

Homeownership as Part of a Holistic Housing Policy

We are grateful for this opportunity to share our views on how homeownership can help revitalize low-income communities. We urge Congress to support the policies we have mentioned to help achieve that goal. Our nation needs more affordable, for-sale housing, especially in neighborhoods that did not share in the recent national prosperity and have been hit hardest by the economic slowdown.

As important as homeownership is, it is only one component of a holistic housing policy that addresses all our housing needs. Public housing, tenant rental assistance and tools to produce more affordable rental apartments are equally important, if not more important. Low- and extremely low-income renters face by far the most acute housing needs. At current funding levels, the programs that produce rental apartments these families can afford can barely keep up with the apartments lost every year to rent increases, abandonment and deterioration—let alone meet chronic and worsening shortages.

As the LIHTC and HOME programs have shown, rental housing development can provide similar community revitalization benefits to homeownership development. Again, Enterprise's Sandtown experience is instructive: hundreds of new rental apartments have complemented the homeownership development and contributed as well to the neighborhood's improvement. Without substantial additional investments in the surrounding community, including decent, affordable rental housing, many homebuyers in low-income areas may not benefit from the stability and wealth building homeownership promises.

Homeownership is not for everyone. Many low-income renters will remain renters by choice. Others will need to rent for a period of time to amass savings, repair credit history and learn the responsibilities of homeownership before they can make their first downpayment.

Others may never be ready or able to become homeowners. A holistic housing policy—and a compassionate country—cannot afford to ignore the needs of these families and individuals.

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[i] The Johns Hopkins University Institute for Policy Studies, *Neighborhoods Moving Up: What Baltimore Can Learn From its Own Improving Neighborhoods*, 2001, p. 34.
[ii] Millennial Housing Commission, *Meeting Our Nation's Housing Challenges*, 2002, p. 11.
[iii] Collins, Crowe and Carliner, "Supply-Side Constraints on Low-Income Homeownership," in Retsinas and Belsky, eds., *Low-Income Homeownership: Examining the Unexamined Goal*, 2002, pp. 197-198.
[iv] National Housing Conference Center for Housing Policy, *Housing America's Working Families*, 2000, p. 21.
[v] National Housing Conference Center for Housing Policy, *Paycheck to Paycheck: Wages and the Cost of Housing in America*, 2003, p.2.
[vi] HUD website (www.hud.gov), "HOME Program National Production Report as of 5/31/03."

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