Wyoming Community Development Authority

"Financing Affordable Housing in Wyoming"

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To: U.S. Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Housing, Transportation, and Community Development.

From: Christopher Volzke, Deputy Executive Director, WCDA.

Title: Written Testimony of the Challenges in Preserving the U.S. Housing Stock, a Rural Perspective.

Introduction - Chair Smith, Ranking Member Lummis, and members of the Committee, thank you for the opportunity to testify today about the Challenges in Preserving the U.S. Housing Stock. I am Christopher Volzke, Deputy Executive Director of the Wyoming Community Development Authority. Since 1975, the WCDA has been championing affordable housing in Wyoming. WCDA was created by state statute, as an instrumentality of the state, for the purpose of raising capital to finance affordable housing. WCDA receives no state funding. WCDA's largest housing program is the Single-Family Mortgage Purchase Program for first-time homebuyers. In addition to its single-family programs, WCDA currently administers five major federal housing and community development programs: the Low-income Housing Tax Credit (LIHTC) Program, the National Housing Trust Fund (NHTF) Program, the HOME Investment Partnerships Program (HOME), the Community Development Block Grant Program (CDBG), and the HOME Investment Partnerships American Rescue Plan Program (HOME-ARP). Together, these five federal programs have funded more than 5,500 units of affordable rental and homeownership housing across the state, along with dozens of water, sewer, and other public infrastructure projects.

I am grateful for the opportunity to speak about housing, and specifically from a rural housing lens, which can be overlooked during national scope conversations. I'd like to structure this testimony to discuss Wyoming-specific and rural housing needs, provide demographic and supporting examples, and finish with contemplation over the role of certain pieces of legislation.

In the aftermath of the Great Recession, construction of new for-ownership homes has not kept up with demand. As a result, our nation's stock of for-ownership housing is aging. According to the American Community Survey, the median age of owner-occupied homes in the United States is 40 years old. A little less than half of the owner-occupied homes were built before 1980, and around 35% were built before 1970.

As homes get older, they require necessary repairs and upgrades to remain habitable. Unfortunately, many working families have trouble accessing affordable financing to pay for such projects. I applaud Ranking Member Lummis for acting to tackle this issue when you introduced with Sen. John Fetterman the Whole-Home Repairs Act of 2024 (S.3871), which would establish a whole-repair grant program for low-and moderate-income homeowners.

Wyoming - Moving to a more local perspective, the state of housing in Wyoming is complex, expensive, and lacking. The WCDA recently published a Statewide Housing Needs Assessment[1]. It is a lengthy report, 300 pages, which further illustrates the point that this is not a problem we can

[1] https://www.wyomingcda.com/demographics/

solve with one silver bullet. Rather it is a complex set of dials, each needing to be adjusted until we can collectively bring about change.

Summary of Key Housing Datapoints in Wyoming:

- Housing Supply: Current housing needs indicate the state has over 50,000 households under 100% Area Median Income (AMI) with at least one housing problem including cost burden[2], overcrowding[3], lack of complete kitchen facilities, or lack of complete plumbing facilities. In addition, as the state is projected to experience moderate population growth in the coming years and between 2021 and 2030, the state will need to add between 20,700 and 38,600 additional units of housing.

- Rental Market: The rental market experienced an increase in the amount of cost burdened[1] households overall from 32% in 2010 to 38% in 2021. Among households with incomes between $20,000 and $35,000, the increase was from 41% in 2010 to 67% in 2021 and among households with income between $35,000 and $50,000, from 13% to 35%.

- Homeownership Market: The typical home value is unaffordable to households earning the median income in every county in Wyoming in 2023. In addition, 44% or close to 1 out of every 2 homes was sold to someone making 151% of the AMI. While only 1 out of 4 homes sold went to someone in the middle band of 80%-120% AMI and those making less than 80% AMI were limited to 12% of home sales.

- Demographic Trends: The population of Wyoming is aging; the proportion of individuals aged 65 and over has risen from 12% in 2010 to 17% in 2021. This demographic is expected to increase by another 40%+ by 2030. The percentage of seniors living alone is greater than 1 out of 10 Wyomingites (12%). It is crucial to prepare for the growth of that population because they are more likely to require housing accessibility modifications, in-home care, meals, transportation, health services, and institutional care facilities.

When discussing challenges to housing preservation, the conversation can differ based upon what definition we are discussing. The first way of looking at preservation is the affordable nature of the stock. This is a focus to keep affordable housing that is restricted or naturally occurring, exactly that, affordable. The second conversation is the actual preservation of the physical unit itself. The question becomes, as units age, does the owner have the ability to maintain or adapt the housing as needed.

Typical in federal rental programs such as LIHTC, HOME, or NHTF is at a certain point after the affordability period has run its course, the rental community needs large capital inputs to be rehabilitated. We have a process for that. By using those same federal programs in a way that can infuse the necessary capital back into the project, we can ensure it is rehabilitated to quality and safe standards for the tenant, the project has the capital health it needs to operate, and it is locked back into a new affordability period-thus achieving the end goal of preserving the affordable rental stock. By way of example, in my own backyard of Casper, we have partnered with the Wyoming Housing Network to use HOME funds to rehabilitate 127 units. This project included elements such as shoring up foundations, asbestos mitigation, stair access repair, and full interior updates. The rehabilitated units will now extend the life of the property and improve the health and well-being of the people living there, all while remaining part of our affordable housing stock.

[2] Cost burden is defined by HUD as a monthly housing cost (including utilities) exceeding 30% of monthly income and severe cost burden is monthly housing costs (including utilities) exceeding 50% of monthly income.

[3] Overcrowding is defined by HUD as more than 1 person per room and severe overcrowding is defined as more than 1.5 persons per room.

Similarly, single family ownership properties eventually age. We have aging housing stock in Wyoming with 32% of inventory built over 50 years ago (pre-1970) and 66% built prior to 1990. They need new roofs, furnaces, and windows. Also, the needs of the owner may have changed, and conditions for accessibility become a needed upgrade for homeowners to age in place. This is a real concern, as demographics data in Wyoming demonstrate that the disability rate in the State is 12.9%, with the rate of disability increasing with age. For people over the age of 75, the rate of disability exceeds 48%.

As we transition to the discussion around rural capacity, it hits home as I come from a fifth generation farming and ranching family with roots in rural South Dakota. Rural areas, especially those isolated from major cities, face difficulties accessing technical expertise and incur high costs for material transport, while also making it challenging to attract developers for their smaller-scale housing needs. It is common for many smaller municipalities to have part-time city positions. A city manager, clerk, or even mayor, can be a part-time position while they work their full-time career outside of city administration. This creates a barrier for rural municipalities to fully participate in the process when programs become available. Part of the equation for funding needs to include adequate technical assistance to help rural communities to navigate rules that they may not be familiar with. Otherwise, even a well-funded program may not be properly enacted in these areas.

Critical infrastructure, including water, sewer, electricity, floodplain management, roads, and others, presents a major barrier for rural communities in making homes livable, often at prohibitive costs. The USDA Rural Development as you can imagine is a strategic partner for rural America. Their expertise and specific programs tailored to our constituents fill a need that other federal programs do not. Yet, like many other agencies, they are underfunded. Water infrastructure is a major concern in a high elevation arid state like Wyoming. USDA-RD community development loans can help keep community infrastructure functioning. To give an example, the USDA-RD recently helped the Wyoming city of Manville with a partial loan and partial grant to fund and update their water system. Manville is a community of approximately 100 Wyomingites. With the cuts to USDA-RD, this program will no longer be able to offer the grant portion of the funding had they been applying in the upcoming cycle. As you can imagine, even at subsidized rates, a community of 100 does not have the tax base to fund a roughly $4.7M water project. While this may be a specific example to a Wyoming community, there are hundreds of similar sized communities across the mountain plains region. These are communities similar to where I grew up: ranchers and farmers working hard to provide for our national food supply, but with aging infrastructure that their housing depends on.

As mentioned earlier in my testimony, Ranking Member Lummis, along with Sen. John Fetterman recently introduced the Whole-Home Repairs Act of 2024 (S.3871), which would establish a whole-repair grant program for low-and moderate-income homeowners. A similar yet much smaller version of this concept exists within the USDA-RD as the 504 program. This program allows very low-income persons (VLIP) to qualify for low interest loans and grants for necessary home repairs. This has shown to be a successful program directly tackling the needs we are discussing today. The Whole-Home Repairs Act works to amplify the impact of this concept to the low- and moderate-income homeowners. This vision of Sen. Lummis and Fetterman allows our working-class citizens to access the help they need to keep their homes in a safe, sanitary, and repaired state.

The bipartisan legislation proposes establishing a nationwide five-year pilot to assist homeowners facing critical home repair needs and combat the housing crisis. Escalating repair and utility expenses often compel low-income homeowners and renters to endure conditions such as mold, lead paint, faulty plumbing, and other hazards to health and safety. When households cannot manage repair costs, it results in housing deterioration, contributing to the affordable housing challenges.

This proposed legislation could be instrumental in changing communities. I don't need to look any farther than central Wyoming to imagine the impact. Mills, WY is one of the top 20 cities in Wyoming in terms of population. The city has a bit over 4,000 residents; and yes, you heard that correctly, a city of 4,000 can be in the top 20 in Wyoming. We are talking about rural America after all. At the same time, Mills is in the bottom 20% for income, as the median household income of Mills in 2021, was $44,115. The city has an increasing property age with 69% of households built prior to 1990. At the same time close to 1 out of 4 property owners are cost-burdened and more than 1 out of 3 renters are cost-burdened. This example of a rural community with limited resources is exactly the type of place that could benefit from the legislation and alter the trajectory of its residents.

While I know this program could help rural Wyoming, similar communities exist all across the Nation. Retaining and rehabilitating our existing housing stock is urgently important, as in many communities there is not the capacity, let alone the ability to absorb the higher building expense to add inventory. We must invest in transforming the housing stock we have, rather than losing it to obsolescence.

Inventory - While it may not be the exact focus of this hearing, housing rarely can be discussed without a more holistic view. As such it is important to also touch on new inventory constraints as an important piece of the housing problem. Rural projects lack the density and proximity that make most urban projects work. A series of constraints can compound new inventory creation.

Prior to my relocation to Wyoming, I was fortunate to spend nearly a decade with the Hopkins family, who are the fourth-generation family owners of a community bank serving South Dakota and Minnesota. The community bank model is at the heart of lending in rural America. Construction costs for housing projects in rural communities can be significantly higher compared to urban areas. This challenge is amplified in rural regions that already struggle with limited returns on investment, hindering small-scale market-rate developments. A possible solution is to support rural and small-scale developers by offering tools or programs like credit enhancements and guarantees to reduce development risks, which could include guarantees on infrastructure costs to create buildable lots.

Additionally, costs for credit can unduly fall on rural borrowers. In the scope of rural consumers accessing financing for home preservation or necessary updates, two main tools exist. Traditionally consumers can access funds from a cash out refinance of the collateral, or agree to a home equity line of credit (HELOC). I am excluding unsecured personal lines or loans, as they typically have even higher borrower costs due to the interest rate needing to offset the lack of a security. The majority of cash out refinances are sold on the secondary market. These transactions can be caught in appraisal scrutiny by those who don't understand that a comparable can be a town away based on limited listings and sales in small communities. Rural appraisals can also cost more due to the nature of the available appraisers and associated travel costs. Secondary market models that allow for valuation flexibility could ease some of this strain. HELOC financing typically resides on the financial institution's balance sheet, allowing for some flexibility in terms of valuation method. However, financial lenders must weigh their loan risk with the customer profile. High loan to value loans may not meet the lending matrix or may carry higher costs. When considering the origination cost to access funds either through a cash out refinance or a HELOC, the percentage of expense to the loan proceeds can make the cost of borrowing prohibitive to consumers.

The workforce housing crisis extends to nearly all counties, particularly impacting households with incomes ranging from 80% to 120% of the AMI. The scarcity of affordable, accessible, and quality single-family and multi-family housing in these income brackets often forces families into costly housing options that do not adequately meet their needs. Moreover, the housing shortages at all price points pose significant challenges for businesses in attracting new employees and retaining their current workforce.

The lack of affordable and available housing remains a significant barrier to economic prosperity for many, limiting business and workforce opportunities in these communities. This shortage hampers efforts to attract new workers, potentially leading to reduced capital investment in rural projects or businesses opting not to establish themselves in Wyoming.

In Wyoming, both urban and rural counties are grappling with a shortage of new and renovated single-family and multi-family housing across all price ranges. The lack of affordable, accessible, and high-quality housing stems from several factors, including a scarcity of shovel-ready land, the steep costs of construction, a limited pool of construction workers, and insufficient capital. This situation has led developers, investors, and families to hesitate in making new investments in construction or renovation, especially in rural areas where the high construction costs often outweigh potential returns on investment.

One solution that may hold promise are the technical advances in manufactured and modular housing to promote affordable and accessible housing in rural Wyoming, addressing workforce challenges. Like many states in the mountain plains region, we have a short building season. Manufactured housing has the ability to be constructed in a more efficient process, in a controlled environment, and can be done in any weather condition. In the past, manufactured housing may have simply meant constructing a stick-built property using the same methods, just under a roof. The process in many businesses now more closely resembles that of a car assembly line. This allows for less waste and tighter building tolerances. These units are then able to be moved on-site and set with utilities, reducing the construction timeline and allowing for more housing to come online during a given season.

Legislation – The last topic I'd like to visit is that of legislation and how it may offer solutions. Legislative reform is multi-faceted and even considerate bills contain underlying costs. These financial commitments must be weighed against the public need for such programs and if viable alternatives exist. Oftentimes there are multiple solutions to the same problem, so finding the optimal path forward can be complex. With that mindset in the forefront, I offer commentary on possible options for committee consideration.

One of the most important federal resources we have for preservation is the HOME Investment Partnerships program. HOME is a flexible block grant which states like Wyoming use to meet our most pressing affordable housing needs for rental housing, including new construction and rehabilitation.

Despite how essential the program is, HOME has never been fully funded. It was last reauthorized in the mid-1990s at just over $2 billion, but actual appropriations have never reached that level. In FY 2024, Congress provided only $1.25 billion for HOME, a $250 million cut from the previous year. We expect Wyoming will receive approximately $3.5 million. With that amount of resources, Wyoming will again need to choose whether it is better to focus those funds on preservation activities or new construction.

In the decades since Congress last reauthorized HOME, we have learned much. Needs and priorities have also evolved. This is why I want to thank Senator Cortez Masto (D-NV) for introducing the HOME Investment Partnership Program Reauthorization and Improvement Act (S. 3793), which would make a number of changes to HOME, including adjusting the authorized funding for the program to reflect inflation. Some of the programmatic changes this bill makes would help us to cut unnecessary red tape, which will allow us to use these funds more efficiently.

According to the Joint Center for Housing Studies at Harvard University, America's rental housing stock has never been older than it is now, with the median age of properties as of 2021 sitting at 44 years. Many of these properties no longer meet habitability and safety standards due to structural deficiencies and lack of basic features like electricity and hot and cold running water. Others are habitable but still in need of major repairs or lack accessibility features needed for an aging populace.

In the last century, our nation invested billions of dollars in affordable rental housing through direct subsidy and insurance programs run by the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA). Most of this housing was built decades ago. Beginning in the 1980s, the government largely changed the way it supports affordable housing production by instead using the tax code to incentivize the production of affordable rental housing, creating what became the most successful housing production program ever, the Low Income Housing Tax Credit (Housing Credit).

Today, the Housing Credit is the cornerstone of how we finance affordable rental housing. But it is called on to do more than new construction. We rely on the Housing Credit to preserve the affordable housing we initially financed with HUD and USDA programs, recapitalizing and rehabilitating these properties so that they do not fall into obsolescence as they age or transition to market rate. State agencies receive a finite amount of Housing Credit authority each year. With it, they must decide how much to devote to new production in areas of opportunity to support economic growth, and how much to use to preserve the aging housing stock that we cannot afford to lose. We simply do not have enough to do it all.

That is why I say thank you to the members of the Subcommittee who have co-sponsored the Affordable Housing Credit Improvement Act (S. 1557). This legislation would restore a cut in resources the program suffered when a modest temporary increase expired after 2021 and build on top of that by expanding the program by 50 percent. It would also modify the rules related to the use of tax-exempt Housing Bonds so that state Housing Finance Agencies like the WCDA could make more efficient use of bond resources. Moreover, this legislation would make programmatic reforms that would streamline the way the Housing Credit works, increasing its efficacy making common sense changes so that we can do more to preserve affordable rental housing for our most vulnerable residents. If passed, the Affordable Housing Credit Improvement Act would allow a national projection of financing nearly 2 million additional affordable homes, including preservation of existing properties.

Aspects of this bill—enacted on a temporary basis—are included in legislation currently before the Senate, the Tax Relief for American Families and Workers Act. Even though temporary, these changes would provide financing for over 200,000 additional homes nationally.

There are two other legislative priorities that, while not under the jurisdiction of the Banking Committee, I feel should garner consideration in preserving the supply of affordable for-ownership homes. With the support of Housing Finance Agencies across the nation, the National Council of State Housing Agencies (NCSHA) urged Congress to pass the Affordable Housing Bond Enhancement Act (AHBEA; S. 1805), which was introduced by Banking Committee member Sen. Catherine Cortez Masto (D-NV) and Sen. Bill Cassidy (R-LA). This bill would make a number of simple, but effective changes to the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs. MRBs and MCCs are the primary means by which state Housing Finance Agencies (HFAs) finance their affordable homeownership programs.

Among other changes, the AHBEA would increase the MRB home improvement loan limit from $15,000, where it has been since 1980, to $50,000. The limit would also be indexed to increase with inflation. The current loan limit, which has not been increased in 44 years, is not adequate to cover the costs of most rehabilitation projects. Increasing the loan limit will open up a new avenue for HFAs to preserve affordable for-ownership homes.

Further, the Neighborhood Homes Investment Act (NHIA), introduced by Ben Cardin (D-MD) and Todd Young (R-IN), would establish a new tax credit, the Neighborhood Homes Credit, modeled after the highly successful Housing Credit. It would incentivize developers to construct new or substantially rehabilitate housing by closing the value gap, up to 35 percent of eligible development costs. In many census tracts and rural areas, developers cannot sell homes for what it costs to construct or substantially rehabilitate them, known as the "value gap". It is estimated that the equity raised by the Neighborhood Homes Credit would finance the building and substantial rehabilitation of 500,000 affordable homes nationwide for low- and moderate-income homeowners over the next 10 years.

Finally, for legislative topics, I want to raise awareness about another issue that I believe is impacting preservation of affordable housing in Wyoming and across rural America. The Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac are important participants in the Housing Credit program, able to invest up to $1 billion each in 2024. They are also required by Congress to serve rural areas and support preservation under their Duty to Serve obligations. However, a little-known tax issue is currently preventing the GSEs from participating in multi-investor Housing Credit funds.

These multi-investor funds are better able to invest in small, rural deals because the risk associated with these deals is spread across multiple properties and multiple investors, in contrast to proprietary funds that have just a single investor and invest in only a small number of developments. Fannie Mae in particular has been active in multi-investment funds since the GSEs re-entered the Housing Credit equity market in 2018. Freddie Mac currently invests only in proprietary funds.

The issue at hand is the question of whether or not the GSEs are so-called Tax-Exempt Controlled Entities (TECEs) due to the Preferred Stock Purchase Agreement with the Treasury. Other investors in multi-investor funds have become worried that they might be TECEs, which are ineligible for certain tax benefits that impact the yield investors make on these investments. Unfortunately, the inclusion of a TECE in a multi-investor fund taints the fund for all participating investors. Thus, while this question is open, other investors will not join a fund in which the GSEs participate.

This TECE issue has forced Fannie Mae to pull out of multi-investor funds, leaving many of these funds scrambling to make up for the investment Fannie otherwise would have provided. This is having a direct negative impact on Housing Credit investment. In fact, Fannie Mae even reduced its Duty to Serve commitment to rural investment for 2024.

Last year, Senators Warner (D-VA) and Moran (R-KS) led a bipartisan letter to Treasury signed by a total of 20 Senators urging the Secretary to issue guidance that the GSEs are not TECEs. However, Treasury has not yet done this, as the legal issues are complex. Treasury is continuing to investigate possible solutions. In the meantime, we believe that Credit pricing in rural areas is suffering because of this. Our last allocated round of Tax Credits had the lowest pricing that we have encountered during underwriting review: pricing in the low 80s, when not that many years ago credits were priced in the 90s. While tax credit pricing is driven by a variety of variables, such as Community Reinvestment Act (CRA) needs, and the supply of other credits in the market, this new development may be an additional cause for consternation in the market.

All of the Legislative initiatives mentioned seek to solve a common problem. Yet, they go about the process in unique ways. Open dialogue regarding the merits and costs will be necessary to find common ground and determine the best route.

Closing - In closing, rural housing challenges while sharing many of the same constraints as housing in general, have unique nuances. Unfortunately, those most greatly affected are Wyoming's most vulnerable populations, including the working poor, individuals with physical and mental health challenges, those experiencing homelessness, and the elderly.

In Rural America, we pride ourselves in pulling ourselves up by our bootstraps and lending a helping hand when needed. We look to embrace the challenges posed by our aging single-family housing stock, including how needed repairs that contribute to a healthy and safe living environment are financed. We desire to partner with state and local home improvement and repair programs that are successfully enabling homeowners to age in place, improve the energy efficiency of their homes, and make critical health and safety repairs. This includes our Federal partners from the U.S. Departments of Housing and Urban Development, Agriculture, and Energy. Finally, we look to discuss ideas and policy considerations for scaling successful programs, as well as opportunities for interested parties to invest in or support home improvement and repair programs that work.

I would be remised if I didn't take a few moments to thank our allies in Wyoming and here in Washington D.C. for your willingness to engage in this conversation and partner on solutions. I also would like to specifically thank all of the Team back at the WCDA. You show up each day and put in the hard work; work that makes real life impacts to your fellow Wyomingites. Be proud and thank you. Finally, to close I'd like to quote a recent post by Governor Gordon's team; "The world needs more Cowboys and Cowgirls, and... Wyoming needs more housing for our Cowboys and Cowgirls." Thank You.

Bio: CHRISTOPHER VOLZKE, Deputy Executive Director, Wyoming Community Development Authority — Mr. Volzke joined the Authority as Deputy Executive Director in 2021. He currently acts as the Chief Operating Officer for the Authority with a focus on internal operations, program development, and strategic planning for Wyoming housing policy. Mr. Volzke comes from a fifth generation farming and ranching family with roots in rural South Dakota. He has spent the majority of his life and career engaged with housing and rural community problem solving. Prior to joining the Authority, Mr. Volzke served as Vice President and Mortgage Servicing Operations Manager for CorTrust Bank, a family-owned community bank serving South Dakota and Minnesota, and also served on the Board of Directors for CorTrust Mortgage, Inc. From 2005 to 2012, Mr. Volzke was employed with Wells Fargo Bank in default servicing, loan adjustment, and project implementation positions. Mr. Volzke currently serves as Vice President of the Alumni Board of Directors for Southwest Minnesota State University and is a Planning & Zoning Board Member for the City of Mills, WY. Mr. Volzke was a 2005 graduate from Southwest Minnesota State University and graduated from the University of South Dakota in 2016 with a Master of Business Administration.