Testimony of Sheila Crowley, MSW, Ph.D.
President of the National Low Income Housing Coalition
presented to the
Financial Services Committee
United States House of Representatives
April 10, 2008

Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for the opportunity to testify today on the proposed FHA Housing Stabilization and Homeownership Retention Act, specifically on Title III: Loans and Grants to States for Foreclosure Relief/Mitigation.

I am Sheila Crowley, President of the National Low Income Housing Coalition; our members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. The National Low Income Housing Coalition does not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable housing, especially those with the most serious housing problems. NLIHC is entirely funded with private donations.

Who is Affected by Foreclosure?

The major concerns of the National Low Income Housing Coalition in the foreclosure crisis are with the fate of low income people and renters. The lower a household's income, the less able it is to cope in the face of foreclosure. Renters who have the misfortune of having landlords who lose their property to foreclosure are the completely blameless victims of this catastrophe. Low income renters who live in properties subject to foreclosure are in real trouble, lacking the resources to easily relocate.

Unfortunately the data on both form of tenure and income of families affected by foreclosure are not collected in any form that makes examination easy. But we do have some indicators. For example:

- An analysis by NLIHC of bank owned/REO transactions and foreclosure auctions in Massachusetts from January 1, 2007 to March 19, 2008 shows 8,398 foreclosed residential properties with an estimated 13,119 housing units. One-family houses and condo units accounted for just 43% of the units.
- The same analysis of Connecticut bank owned/REO transactions during the same period shows 1,532 foreclosed residential properties with an estimated 2,305 housing units. One-family and condo units accounted for 44% of the units.
- The Rhode Island Housing Finance Agency reports that 51% of the foreclosures initiated in Providence in February 2008 are of two to five family properties.

- The Hennepin County (MN) Taxpayer Service reports that 38% of foreclosures in 2006 involved rental property; the figure was 56% for the City of Minneapolis
- CBS News reported on March 27, 2008 that based on Realty-Trac data, "38 percent of foreclosures now involve rental properties," affecting "at least 168,000 households nationwide."

NLIHC also has gleaned income data from housing counseling agency program reports. The attached chart shows income data of clients seeking foreclosure related counseling. The range of percent of clients with incomes at 50% area median income (AMI) or less is 18% to 88%, with a median of 47%. The range of percent of clients of incomes at 30% AMI or less is 3% to 40% with median of 22%.

Though hardly comprehensive, these data support the numerous news reports that renters are a significant portion of families who are losing their homes due to foreclosure. A working estimate is 40%. The data also support the anecdotal reports from local service providers that very low (50% AMI or less) and extremely low (30% AMI or less) income families are a significant portion of those who are losing their homes due to foreclosure. A working estimate for very low income families is 50% and 20% for extremely low income families.

Policy Implications

Renter Protection. There is considerable variation from state to state on the rights of tenants when the owners of their homes lose their property to foreclosure. Some states have enacted tenant protection laws that give the tenants a reasonable period of time to relocate. Others have very draconian rules. I received a report of two Alaskan families who had become homeless after losing the homes they rented due to foreclosure with just seven days notice.

Although renter protection language was included in H.R. 3915 that has passed the House, this provision would only be applicable if the mortgage on the rented property was entered into after enactment. Current tenants should be protected as well. Please include such language in the bill under development.

We recommend that for every foreclosure begun after the date of enactment of this legislation, if the current occupant is renting the property, the entity that takes ownership of the property must honor the lease of the current leaseholder or allow the leaseholder to continue to occupy the property for at least six months, whichever is longer. State laws that provide greater protection should not be pre-empted. The provision should apply to single family as well as multi-family property owners. This provision should continue to apply when the property is resold to a new owner, unless it is a single family home that the new purchaser intends to occupy as his or her primary residence.

Emergency Assistance. The dominant discussion on assisting households at risk of foreclosure centers around helping them negotiate work-out arrangements with their lenders or refinance their homes with FHA insurance. These are important, but insufficient, actions. Lower income families faced with eviction either because they were foreclosed upon or their rented home was subject to foreclosure often lack the resources to transition to a new living arrangement. For example, they may not have the immediate funds to pay moving expenses or required security and utility deposits.

To prevent people from actually becoming homeless, we recommend a one-time supplemental appropriation of $300 million to the Emergency Food and Shelter Program. The purpose is to provide direct financial assistance to be used solely for housing-related assistance needed to prevent homelessness in connection with the foreclosure on a dwelling occupied by an eligible family. This assistance will include relocation expenses, security and utility deposits, mortgage payments, rent payments, utility payments, and other foreclosure or eviction prevention expenses. An eligible family is one who owns or rents a dwelling subject to foreclosure or a unit in a dwelling subject to foreclosure, is legally responsible for the rent or mortgage payment on that dwelling, and does not have the financial resources to avoid becoming homeless if the dwelling they occupy is foreclosed upon.

The Emergency Food and Shelter Program was established in 1983 as a program at FEMA, but is run by the United Way of America and governed by a National Board composed of representatives of major charities, including Catholic Charities USA, United Jewish Communities, the Salvation Army, and the United Way. The National Board distributes funds to 2,500 local boards that in turn make grants to 11,000 community based non-profits and faith-based organizations to provide assistance to needy families. The program is highly regarded as an efficient service delivery system. The United Way reports increased demand for EFSP assistance due to foreclosure.

Preventing homelessness due to foreclosure should be a top public policy priority. Homelessness is highly traumatic for the families who experience it and much more costly than the modest amount of assistance needed to prevent it. Our proposal for $300 million will provide $3,000 in assistance for 100,000 families. It would seem to be the least we can do.

I am aware that as a FEMA program, the Emergency Food and Shelter Program is not under the jurisdiction of the Financial Services Committee. We are working with the Homeland Security Committee for consideration of this proposal and request the endorsement of the Financial Services Committee.

Changes to Title III: Loans and Grants to States for Foreclosure Relief/Mitigation. We have previously submitted a letter to Chairman Frank with several recommendations to strengthen the proposed loans and grants to states. Giving states the ability to buy foreclosed homes and put them back into service makes good sense. However, the program should be designed to also address the most pervasive and long-standing housing problem of every community, that is, the shortage of affordable rental housing.

This shortage is well-documented. Just this week, NLIHC released the latest edition of our widely cited report *Out of Reach*. The primary measure of housing unaffordability reported in *Out of Reach* is the Housing Wage, that is, the hourly wage that one must earn working full time in order to afford to rent a modest home. The Housing Wage this year for Boston is $26.02, an increase of 41% since 2000. In Birmingham, the Housing Wage is $13.27, 36% higher than it was in 2000. The figure for Los Angeles is $25.00, up 62% since 2000; for Martinsburg, WV, it is $13.10, up 39% since 2000.[1]

Nationwide, there are just 38 rental homes that are available and affordable for every 100 extremely low income families. The comparable figure for Massachusetts is 51 homes; for Alabama, it is 56. In California, it is just 23 units, and in West Virginia, it is 51.[2]

The competition for affordable rental homes is intensifying as families who have lost their homes to foreclosure flood the rental housing market. One critical intervention needed by the Federal government is to expand the supply of affordable rental housing, reducing the number of people at the bottom of the wage and income ladder who will be squeezed out of the housing market altogether.

Therefore, first and foremost, we recommend that at least 25% of the proposed $10 billion in grants and loans be for the benefit of extremely low income households and agree strongly with Ms. Waters's proposal to do so in H.R. 5678. The preference for grants and loans to support housing for the lowest income families for the longest period of affordability provided in Mr. Frank's proposed bill is an important measure. But in the absence of specific requirements for deep income targeting, there is no guarantee that any of these funds will be used to create more housing options for those with the fewest choices. Also, new owners who rent out their properties should be required to accept Section 8 housing vouchers.

We also urge that the use of these grants and loans minimally not result in a net loss of rental units in any jurisdiction that receives this assistance. An existing tenant who is occupying a foreclosed property should be able to continue to do so if he or she so desires, unless the new owner will use the property as a primary residence. Relocation related expenses, including the payment of security deposits, should be provided for lower income tenants who choose to or must move.

Another recommendation to improve the draft legislation is to remove the requirements that properties eligible for purchase with grants or loans be "predominately vacant" in the case of multifamily housing and "vacant" in the case of single family homes. These vacancy requirements for eligible properties will encourage the eviction of innocent tenants in order for the property to eligible for purchase through this program. Displacement of renters should be avoided at all costs as they offer stability to the neighborhoods in which they live. Forcing them out will serve to destabilize neighborhoods, contradicting the basic objective of the legislation.

Additional recommendations include:

- The program should be administered by HUD and HUD standards for rent reasonableness and housing quality standards (or local building codes, whichever is more stringent) should apply.
- The formula for distribution of the funds to states should:

[1] Wardrip, K. E.; Pelletiere, D; and Crowley, S. (2008) *Out of reach 2007-2008: the wait for a home grows longer*. Washington, D.C. National Low Income Housing Coalition.
[2] Pelletiere, D. and Wardrip, K. E. (2008) *Housing at the half: A mid-decade progress report from the 2005 American Community Survey*. Washington, D.C.: National Low Income Housing Coalition.

a. Explicitly include median multifamily home prices.
b. Explicitly include the number of units represented by each foreclosure, instead of the number of foreclosures on "homes."
c. Use data from a longer period of time, perhaps the most recent eight quarters, versus the most recent two quarters, for purposes of allocating appropriated amounts.

- Eligible entities to receive funds should include public housing authorities, non-profits, and for profit companies.
- Accountability should be strengthened by including specific reporting requirements about the number and income of families served, specific uses of the grants funds, status of loans and activities funded by the loans, identification of all recipients of grants and loans, and the degree to which the program has affirmatively furthered fair housing. These reports should be made publically available.

Finally, careful attention should be paid to the right pricing of any homes to be purchased and resold. A new analysis by NLIHC and the Center for Economic and Policy Research shows that in many metropolitan areas where housing costs have been greatly inflated, the cost of home ownership far exceeds the financial benefits. For example, in Boston, the monthly cost for a 30 year mortgage at 7% interest for a house selling at 75% of the median house price is $2,340. The Fair Market Rent for a two bedroom home is $1,084 a month. We do not know how far the market will fall or where the bottom is. In still inflated markets, new owners will not accrue equity to justify expending over twice the monthly housing cost differential between home ownership and renting.[3] We urge caution in using public funds to subsidize homeownership at prices that have not yet hit bottom.

A Plea for Balance

There is plenty of blame to go around for the U.S. mortgage foreclosure crisis that is causing international economic turmoil. Included among the contributors to the crisis must be those thought purveyors and policy makers who have uncritically promoted home ownership as the idealized form of housing tenure in the United States and the path to the middle class for low income people. The rhetoric on home ownership in America equating it with worthiness and patriotism, in a political era that favored an under- or unregulated market, created a fertile environment for risky and unscrupulous lending practices to flourish, while people who should have known better colluded or looked the other way.

A social environment saturated with messages that have propelled low income people to seek home ownership at all costs has also delivered the corollary message that rental housing is inferior. And if rental housing is inferior, rental housing affordable for low income people is downright undesirable. We need look no further than the diminished federal investment in low income housing programs for evidence of the neglect of the rental housing sector. The virulent protests that erupt in communities across the country when proposals to build more low income

[3] Baker, D.; Pelletiere, D. and Rho, H.J. (2008) *The cost of maintaining ownership in the current crisis: Comparisons in 20 cities.* Washington, D.C.: National Low Income Housing Coalition and Center for Economic and Policy Research.

rental housing become public also demonstrate the degree to which rental housing is rejected as a necessary housing choice in a healthy community.

The interventions that you devise for this immediate crisis should not be for the purpose of restoring the status quo. The U.S. housing market is in desperate need of rebalancing. Purchase prices need to make financial sense. Costs and incomes need to be more in sync. Homes need to be more reasonably sized and better for the environment. Communities need to make sure that their housing stock matches the needs of the people who live there. Tax policy needs to reward moderation, not excess. Most of all, housing needs to be understood much more as the place where one is sheltered and carries out family life, and much less as a financial asset and a source of wealth building. I urge you to use this galvanizing moment that has the potential of producing significant policy changes at considerable cost to the Federal Treasury to lead the way to more balanced housing policy and a more balanced housing market.

Thank you for consideration of my remarks.

Summary of Foreclosure Counseling Data

Based on NLIHC Outreach to Housing Counseling Agencies and Intermediaries

Organization	Time Period	ELI 0-30% AMI	VLI 31-50% AMI	ELI + VLI <50% AMI	LI 51-80% AMI	Total Low Income (<80% AMI)	Not LI >80% AMI	Sample Size	Notes
Los Angeles Neighborhood Housing Svcs	Oct 2007 - Dec 2007	[redacted]	[redacted]	18%	23%	41%	53%	?	May be indicative of high-cost areas. 6% did not report.
Boulder County Housing Authority	Oct 2006 - Sept 2007	[redacted]	[redacted]	34%	27%	61%	39%	323	
Money Management International	Jan 2007 - Mar 2008	18%	18%	36%	27%	63%	37%	55,500	Households categorized into numeric income ranges and compared to FY07 US median family income.
CHAPA	Oct 2006 - Dec 2007	[redacted]	[redacted]	39%	29%	68%	32%	440	
Indiana Housing & Community Dev.	3 months (?)	[redacted]	[redacted]	29%	40%	69%	31%	6,799	Households categorized into numeric income ranges and compared to FY08 US median family income.
Homeownership Preservation Foundation (888-995-HOPE)	Jan 2007 - Dec 2007	17%	25%	42%	30%	72%	28%	84,000	Households categorized into numeric income ranges and compared to FY07 US median family income.
Operation Hope (Los Angeles)	Apr 2007 - Feb 2008	24%	23%	47%	26%	73%	27%	2,567	% Low Income (<80% AMI) increases to 76% if those receiving government transfers are included. Households categorized into numeric income ranges and compared to an average of FY07 & FY08 US median family income.
Housing Partnership Network	Oct 2006 - Sept 2007; Jan 2008 - Mar 2008	[redacted]	[redacted]	53%	28%	81%	19%	10,153	Based on data from 31 agencies in 24 states.
East Side Organizing Project (Cleveland)	Jan 2007 - Dec 2007	27%	30%	57%	26%	83%	17%	?	
Minnesota Home Ownership Center	Oct 2006 - Dec 2007	[redacted]	[redacted]	56%	27%	83%	17%	5,868	Similar data from Chip indicate that 20% are ELI and 28% are VLI for a total of 48% at less than 50% AMI.
Montana Department of Commerce	Oct 2006 - Sept 2007	3%	30%	33%	51%	84%	16%	37	Actual incomes compared to state median family income; assumes 4 persons per household.
New Hampshire Housing	Oct 2006 - Jan 7, 2008	[redacted]	[redacted]	59%	27%	86%	13%	195	Income categories approximated from numeric income categories.
Whitfield Co - Dalton, GA	Sept 2005 - Mar 2008	22%	32%	54%	32%	86%	14%	176	
New Jersey Citizen Action	Oct 2006 - Dec 2007	[redacted]	[redacted]	32%	56%	88%	12%	238	
Idaho Housing and Finance Association	Oct 2006 - Dec 2007	[redacted]	[redacted]	62%	28%	90%	10%	1,391	Includes 319 receiving HECM counseling.
Omaha Financial Housing Advisory Svcs	Jan 2008 - Mar 2008	40%	35%	75%	20%	95%	5%	254	Contact assures me that the high number of elderly clients seeking Reverse Equity Mortgage counseling are also at risk of foreclosure. The elderly clientele is likely suppressing income levels.
Maine State Housing Authority	Oct 2006 - Sept 2007	[redacted]	[redacted]	88%	9%	97%	2%	43	Most clients were over 60, likely suppressing income levels.
	Median	22%	30%	47%	27%	*83%*	17%		

External Validation - Not Specifically Foreclosure Counseling

HUD-9902 Cumulative Totals	Oct 2005 - Sept 2006	[redacted]	[redacted]	52%	30%	82%	19%	1,549,814	All Counseling and Education Activities; only 11% involved mortgage delinquency.
Mississippi Home Corporation	Oct 2006 - Sept 2007	[redacted]	[redacted]	[redacted]	[redacted]	85%	15%	2,553	All households reported on HUD-9902. Only 161 received foreclosure counseling.