

**Statement
by**

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before the

**Senate Urban Affairs and Housing Committee
of the
Senate of Pennsylvania**

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Good morning and thank you for the invitation to meet with you today. I am Brian Hudson, the Pennsylvania Housing Finance Agency's Executive Director.

The focus of this meeting is to discuss the impact the Natural Gas Industry is having on housing in North Central Pennsylvania. However, for the benefit of the Members, I would like to present for the record this written testimony which reviews what PHFA is, the programs it operates and how it is funded. I have also made available packets of information that detail the Agency's activities in your districts.

PHFA is the Commonwealth's leading finance organization for affordable homes and rental apartments. It was created by the legislature in 1972. Its core mission was to finance affordable apartments and homes at minimal expense to Commonwealth taxpayers through the issuance of securities. That is still the case today. PHFA does not receive a general appropriation from the Commonwealth for its programs or operations, with the exception of the Homeowners' Emergency Mortgage Assistance Program.

Statewide, the Agency has provided almost eleven billion dollars of funding for over 140,000 homes and 83,000 apartments. Additionally, the Homeowners' Emergency Mortgage Assistance Program, which PHFA administers for the Commonwealth, has saved over 44,000 homes from foreclosure.

The Agency is governed by a 14 member Board of Directors. Four serve in an ex-officio capacity. They are the Secretary of Banking, who by law is our Chairperson, the Secretaries of the Departments of Community and Economic Development and Public Welfare, as well as the State Treasurer. The majority and minority leaders of the House and Senate have one appointment each. The remaining six members are appointed for six year terms by the Governor with the advice and consent of the Senate.

RENTAL HOUSING

PHFA provides financing for both homeownership and rental housing, with homeownership financing being made available through local lenders in all regions of the state. Rental development is more complicated and requires long-term planning. Therefore, I would like to address the North Central Region's housing issues with the focus on rental housing. To do that, I would like to provide an overview of how PHFA's rental housing production program operates.

Included in your packets is a map of some of the counties in the northern tier of the state that have been impacted by the Marcellus Shale industry. As you

can see there is only one development that recently received an allocation of Tax Credits in Tioga County. This area of the state has historically not been of interest to developers. PHFA would like to provide assistance to existing and new developers to meet the increasing demand.

Tax Credits

The driving force behind rental housing production in the United States today is the Federal Housing Tax Credit. These tax credits allow housing sponsors to raise private capital to lower the cost of development. The Agency administers this effort in the Commonwealth. This year PHFA allocated \$27.5 million of tax credits which will generate approximately \$200 million of private investment to help finance affordable rental apartments in Pennsylvania.

The tax credit program works as follows:

PHFA awards Housing Credits to developers, who in-turn sell the credits to investors (investors receive a ten-year tax credit against their income) to help fund the construction or rehabilitation of their rental housing proposal, thus reducing the amount of any mortgage required. Developers (owners) are then required to pass through their reduced cost of construction in the form of lower rents.

The apartments made possible by the credit cannot be rented to anyone whose income exceeds 60 percent of the area median income. In Lycoming County, a family of four could not earn more than \$32,460 a year and occupy a “tax credit” apartment. Prospective tenants must have sufficient income to pay the rent along with good credit histories, etc., to live in these privately-owned developments.

Below is an example of how money flows into a development to make it economically feasible.

Federal government allocates Housing Tax Credits to PHFA.

Developer applies to PHFA and is awarded \$100,000 in Housing Tax Credits.

Developer finds an investor willing to pay \$0.80 for each dollar of tax credits.

Developer gets \$800,000 from the investor to lower the cost of building the development ($\$100,000 * 10 \text{ years} = \$1\text{M} * .80 = \$800,000$).

The Housing Credit accounts for most of the country's new affordable rental housing. By providing an incentive for private investment, the Housing Credit has helped finance more than 2.1 million apartments since Congress created it in 1986.

Federal law requires that PHFA allocate credits to developments it selects according to a qualified allocation plan (QAP) that identifies the characteristics of affordable housing needed throughout the Commonwealth. The plans must describe the criteria PHFA will apply in allocating the credit. Developers are made aware of these priorities and submit proposals to compete on the priorities set out in the plan. These "disciplines" imposed on developments are an essential element of the program's success.

In addition to the tax credit, PHFA also makes available PennHOMES money as a soft second mortgage loan that complements the tax credit and makes it more effective in the Commonwealth. This funding comes directly from PHFA's earnings. Since 1987, PHFA has set aside more than \$225 million of its own funds to make Pennsylvania's rental housing programs work in all areas of the state.

The PennHOMES/Tax Credit process is extraordinarily competitive with only about 25 percent of the proposals being funded each year. To help PHFA address its limited ability to fund many excellent proposals, Senator Pippy and Senator Kitchen last session introduced a bill that would establish a PHFA housing trust fund. That bill passed the Senate with bipartisan support, but did not pass the House. A similar proposal, SB 599, has been introduced this session by Senator Yaw, co-sponsored by Senator Kitchen, as well as other members of this committee. A comparable proposal, House Bill 60, has passed the House, been favorably considered by this committee and is presently in the Senate Appropriations Committee. With the limited time available this session, I would appreciate your help in securing passage of House Bill 60.

Although there is no state funding in HB 60, it would establish a fund within PHFA that would be a repository for any private money the Agency can raise, as well as any federal money that may become available through the National Housing Trust Fund. It is hoped that this fund would eventually supplement PHFA's ability to subsidize its programs with its earnings. The billions PHFA has raised in the financial markets have been subsidized by commitments of Agency earnings. In spite this commitment of earnings, 75 percent of the developments that come before the Agency's board cannot be funded.

PHFA's current Qualified Allocation Plan (QAP) has been written so that critical housing issues in the Marcellus Shale region can be addressed. A second impetus to development in this region would be the passage of House bill 60. With a trust fund in place, PHFA would have various options available to raise capital from soliciting foundation money to negotiating with gas companies for a commitment of funds that would match a PHFA commitment to help alleviate housing shortages.

Of course, any awarding of funds by PHFA must make long-term sense for the permanent residents of the region.

OTHER AGENCY ACTIVITIES

Homeownership: PHFA helps low- and moderate-income Pennsylvanians become homeowners by making mortgage money available through a network of participating lending institutions across the state.

The Agency's loans help Commonwealth families buy their first homes by offering attractive, below-market-rate, 30-year, fixed-rate mortgage loans, as well as providing a statewide network of free homeownership counseling services.

For many purchasers, especially lower income families, the greatest impediment to buying a home is coming up with the money for downpayment and closing costs. The Agency's homeownership programs overcome that obstacle by providing soft second mortgage funding for qualified buyers. PHFA also funds accessibility improvements to make the homes of persons with disabilities more adequately meet their needs.

PHFA mortgage funds are available for existing homes, as well as for newly constructed homes, to stimulate the economy and create jobs.

An Employer Assisted Housing Initiative was started by the Agency to help workers better afford the cost of shelter near their place of employment. Many core community employees such as public safety personnel, health care providers, entry level employees, and unskilled laborers can benefit from the program, and stretch their home-buying dollars if their employers participate in the program. By helping employers address a key business concern, the cost of recruiting and retaining good employees, the program can have a positive effect on turnover rates, absenteeism and tardiness while lowering commuting times and accompanying stress.

Employers who participate in the PHFA program can offer their workers the lowest available Agency rates, reduced fees, and free homebuyer education. In some cases, employees may also be eligible for closing cost assistance. The

benefit can also be designed to consider community revitalization in and around the place of business. To date, 64 employers have partnered with PHFA and the Agency has developed sample documents and guidelines for companies that wish to participate.

Thus far, in all our homebuyer programs, almost ten billion in mortgage financing has been made available to help over 140,000 Pennsylvanian households purchase homes. Funds for this program come primarily from the sale of Agency bonds to private investors across the nation, and from Agency earnings, not from appropriations. The collateral for the bonds is the properties on which the mortgages are held.

These PHFA securities, known as mortgage revenue bonds, are among the highest rated of their kind in the nation and currently carry a AA+ rating from Standard and Poors and a Aa2 rating from Moody's Investor Service.

In 2009, the Agency become an approved issuer of Ginnie Mae Mortgage Backed Securities (MBS) and thus added another funding stream for its home purchase loan program.

The Agency also services these loans until paid in full. Its current portfolio contains over 56,000 loans totaling more than \$4 billion, with a delinquency rate well below both state and national averages.

The Homeownership Choice Program: PHFA developed the Homeownership Choice initiatives to attract private development to blighted urban areas. Its primary focus is homeownership but it can also encourage rental housing with its flexible initiatives which include:

Homeownership Construction to help municipalities and core communities transform blighted areas into attractive neighborhoods through new construction.

Neighborhood Revitalization to provide ownership opportunities through a combination of both new construction and rehabilitation of homes.

Mixed Use to help revitalize commercial corridors by providing flexible funding for rental or for-sale housing on upper floors of commercial storefronts.

Through its nine years of operation, \$86 million in Agency funds have been used to leverage over \$541 million in additional housing, infrastructure and economic development commitments in 72 communities. Commitments have funded 1,710 new and 391 rehabilitated for-sale homes, 270 apartments, 48 for-sale condominiums and 88 new commercial spaces.

Mortgage Foreclosure Assistance

Act 91 of 1983 authorized PHFA to develop the Homeowners' Emergency Mortgage Assistance Program to help certain homeowners who were in danger of losing their homes to foreclosure. This change in PHFA's statute was brought about by an early 80's recession which led to a large number of foreclosures, particularly in the southwestern part of the state.

The HEMAP program is funded through State appropriations and loan repayments. Since inception, state appropriations have totaled \$243,926,000. It has saved over 44,000 homes from foreclosure and provided over \$467 million in loans. Also, over 20,600 loans have been paid in full and HEMAP has received over \$256 million in principal and interest repayments from homeowners who have benefited from the program. These repayments have been recycled into new HEMAP loans, benefiting additional Pennsylvanians.

Predatory lending issues and the sub-prime mortgage crisis have pressured the program over the past several years. As a result of high unemployment in 2009, HEMAP "triggers" kicked in taking available assistance up to 36 months. This will result in additional costs to the Program. Additionally, declining economic activity in conjunction with tightening credit has reduced repayments by 50 percent over the past four years. Increases in application volume will continue to pressure the program.

Additional Efforts by PHFA regarding Foreclosures

To address other types of foreclosure issues, PHFA established two temporary programs: REAL and HERO. Below is a brief description of these two initiatives.

REAL Program (*RE*finance to an *Affordable Loan*)

The REAL program was designed to provide affordable 30-year fixed interest rates to homeowners who initially obtained an adjustable rate mortgage (or some other 'exotic' mortgage product) and are no longer able to afford the adjusted mortgage payments.

HERO Program (*H*omeowners *E*quity *R*ecovery *O*pportunity)

This program is for borrowers not eligible for PHFA's REAL program or another mortgage refinance product available in the general market due to credit issues or owing more than their home's current appraised value. PHFA determines an affordable loan amount and then negotiates with the current lender in an attempt to secure a discounted loan payoff.

The committee has been provided a number of publications that detail the many activities of the Agency. Information about PHFA programs may also be viewed on the internet at www.phfa.org. Again, thank you for the invitation. I look forward to answering any questions you may have.