The Housing and Economic Recovery Act of 2008: A huge victory for affordable housing—and what it means to us in Washington State

The Housing and Economic Recovery Act of 2008, H.R. 3221, passed by Congress and signed by President Bush on July 30, marked a stunning move forward for all of us involved in affordable housing. This issue of My View presents a series of conversations with both national affordable housing leaders and with advocates working on the ground here in Washington State. They’ve shared their perspectives on how many of the Act’s key provisions came into being, and offer a first take on what this new legislation will mean for our communities.
Putting 59 more affordable units on the street in Walla Walla

I’ll begin this series of interviews with a local housing leader who also provides a national perspective. Renee Rooker is the long-time director of the Walla Walla Housing Authority (WWHA) and is in the midst of a two-year term as president of the National Association of Housing and Redevelopment Officials (NAHRO).

The most immediate impact of H.R. 3221 that Renee saw for WWHA was through the monies made available through the new $11 billion increase for housing bond cap provided to states. Before the bill’s passage, it was unclear to her whether WWHA was close enough to the top of the state’s waitlist to be eligible for low-cost mortgage financing for its latest low-income rental development. “It was almost like a miracle to be able to have this in the bill to ensure that we would get the funding,” she says. “We’re looking at about $4 million in financing. For us in Walla Walla, that will put 59 more affordable rental units on the street.” Given that Walla Walla’s population is about 31,000, 59 more units are “just another piece to our housing puzzle. Each year, we try to make incremental steps.”

Here are several more of the Act’s highlights from Renee’s perspective:

Section 8 Voucher Program flexibility. The Act’s new provisions will allow project-based voucher rents in Tax Credit developments to reach normally allowed maximum voucher rents, even if that happens to be higher than the stipulated Tax Credit rent limits. “It’s a positive move, and a change that NAHRO and other organizations have been advocating for. It just makes it easier to combine the two programs—given that many state allocations call for targeting lower-income families, but they can’t afford the rent, so marrying those vouchers with the Tax Credit really helps.”

Additional monies for hard-hit neighborhood stabilization. “Providing about $3.9 billion to support local efforts to stabilize neighborhoods that have high numbers of vacant and foreclosed homes will be a big help. It’s basically a new infusion to the CDBG program. The funding is very flexible, and it’s going to go where there are the greatest percentage of home foreclosures—where it’s needed most.”

The Public Disaster Relief Act. This was another important legislative remedy that NAHRO had been fighting for, Renee explains. By repealing Section 9-K of the Housing Act of 1937, H.R. 3221 essentially requires FEMA to permanently repair and reconstruct disaster-damaged public housing.

…it feels like there is a future for housing in America: That it truly is on the agenda of Congress.”

RENEE ROOKER Director, Walla Walla Housing Authority (WWHA); President, National Association of Housing and Redevelopment Officials (NAHRO)
My View FROM KIM HERMAN, EXECUTIVE DIRECTOR

OCTOBER 2008

The Housing and Economic Recovery Act of 2008

“This goes back to the hurricanes of Rita and Katrina in 2005,” Renee says. Based on a Memorandum of Understanding between HUD and FEMA, local housing agencies were prevented from accessing FEMA funding to repair or reconstruct their public housing by virtue of their eligibility to receive funding through HUD’s emergency capital fund reserve—even though Congress had barred HUD from funding these reserves in every fiscal year since FY 2000. “This is a big win, given that it’s been a big fight for three years, ever since Katrina struck. FEMA and HUD just dropped the ball. This won’t reconstruct what was damaged prior to this legislation, but it will take care of the damage by disasters like Hanna, Gustav, and Ike—and looking forward.”

Recognizing the impact of housing on the vitality of communities

Nationwide, increased foreclosures are putting the squeeze on affordable rental markets as people move out of homeownership. This places even more pressure on those with limited means. In her own community, though it’s not hard hit by foreclosures, Renee is certainly seeing growing pressures on the supply of affordable housing. “In Walla Walla, we’re just feeling a very tight market. Our vacancy rate is below 3%. It’s been that way for about three years. We’re just lacking affordable units. The cost of housing is high in our area and salaries are not keeping up.”

WWHA serves about 1,200 families per month, through a broad mix of owned and managed units, and four rental assistance programs. The authority owns and manages about 250 units of housing—and carries a waitlist of more than 2,000 families. Renee and her organization are trying to break ground every year on new affordable rental units. Because of the way Walla Walla is zoned, no large parcels are available for multifamily developments. “Our strategy is to help revitalize neighborhoods. We find and use infill lots, both those that are vacant and some with substandard homes. We will demolish those and build new affordable units.”

For Renee, with the passage of H.R. 3221, “it feels like there is a future for housing in America: That it truly is on the agenda of Congress. This bill treats not only rentals but homeownership, and recognizes the importance of the vitality of communities—it understands those linkages. Priorities are intertwined. Infrastructure, roads, schools are all important, but if you don’t have a decent, safe affordable place to live, the rest of it falls off the radar screen.”

Our state’s farmworker housing serves as a test case for legislative reform

One remarkable reform in H.R. 3221 was spearheaded by several Washingtonians who took the case directly to Congress. They sought clarifications in order to change the way the IRS was interpreting the tax code—and disallowing the use of tax credits to raise investment capital targeted for farmworker housing in our state. Our Congressional representatives, in particular Senator Maria Cantwell and her staff, were quick to see the significance of this issue, and push for language in the Act that would remedy the IRS’s stance.

I’ll let these leaders—Marty Miller, director of the nonprofit Office of Rural and Farmworker Housing (ORFH), and attorney Mark Kantor—tell the story, but first, a little background. The Low Income Housing Tax Credit Program (LIHTC), which is based on Section 42 of the Internal Revenue Code, was enacted by Congress in 1986 to provide private investors with incentives to invest in affordable rental housing. For the past 20-plus years, attorneys who specialize in tax credit issues like Mark, along with hundreds of housing developers like ORFH, have operated under the assumption that special groups like farmworkers that are singled out by a nonprofit organization for help don’t automatically violate HUD housing policies governing non-discrimination.

But during the past several years, the IRS had taken a strong stance against using Tax Credits for groups like farmworkers and artists. And earlier this year, ORFH’s pending 51-unit low-income rental development for farmworkers in Royal City was in the IRS’s crosshairs for non-compliance with “public use” requirements.

A threatened project

“This spring, we were trying to close the Royal City partnership for the tax credit financing, which has a lot of technical components,” Marty explains. “To do so, we needed Mark to write an opinion that said he believed we were in conformance with IRS regulations. Mark was concerned about his ability to write this letter. Quite simply, what that meant was that we wouldn’t be able to close the partnership. And therefore we would not have the financing to go ahead with construction.”

Mark and an attorney partner, Tom Nelson, headed to Washington, D.C. in mid-June. Along with an attorney representing the National Equity Fund, they met with the IRS
The Housing and Economic Recovery Act of 2008

and argued that farmworker housing didn’t violate the regulations and should be eligible for the LIHTC Program. “We received a fairly firm response that this argument was not going anywhere,” Mark recounts. “We left that meeting and went directly to lobby our representatives on the Hill.”

A lesson in civics

“Senator Cantwell and her staff, particularly her assistant Lauren Bazel, were phenomenal—just tremendous on this issue,” says Mark. It was clear what was at stake. “There are all kinds of programs targeted to special needs groups. In Washington State, a top priority for the legislature has been housing for agriculture, for which there is such a huge need here. The Commission has points awarded for farmworker housing, and the state Housing Trust Fund (HTF) has a program targeted for farmworker housing. There are housing projects for veterans, for example, for victims of domestic violence, for the homeless.”

Crucially, the IRS’s position was threatening not only projects in the works, but also past LIHTC-funded projects across the U.S. “Senator Cantwell was the sponsor of the Senate version of this bill. We’d been having indirect contact with her for a couple of years. When all this started up, she really came through. We also received significant help from lobbyists for Enterprise Community Development and Local Initiatives Support Corporation (LISC).”

For Mark, this turned out to be an interesting lesson in civics. “H.R. 3221 comprises 694 pages. The general public use language that we worked on and got into the bill is 15 lines. I know Tom and I spent well over 100 hours collectively on this. It makes you realize what goes on in the legislative process.”

In the end, the language of H.R. 3221 was crafted to explicitly allow tax credit developments that establish tenancy restrictions for persons with special needs, as well as persons who are members of a specified group under a federal or state program or policy that supports housing for such a group. Mark points to one particular item of interest. “For most provisions of the Act, the effective date is after the date of enactment. But for this public use test, the amendment applies before, on, or after the date of enactment. Specifically, we needed to make sure all of those previously built tax credit projects were okay. We felt confident that if we had to go to court on that, we would prevail, but certainly the legislative avenue was a much better approach.”

Rural areas continue to have tremendous needs

For Marty Miller, this process “was a demonstration of how everyone pulling together on an issue could really make an impact on federal legislation. Senator Cantwell very quickly grasped and embraced this, as did so many others.”

And the Royal City project? “Thankfully,” says Marty, “we were able to complete the process of assuring investors of our compliance with the LIHTC program. Now we’re finalizing the other standard due diligence issues to close, and rapidly moving towards starting construction. We had intended to start this fall and we’re still on track to do that. We were truly fortunate that the opportunity for this legislation came around when it did.”

Royal City, Marty points out, is an area where there’s a lot of growth in agriculture and lots of labor-intensive crops—tree fruit, vineyards, some row crops. Agriculture
My View FROM KIM HERMAN, EXECUTIVE DIRECTOR OCTOBER 2008

The Housing and Economic Recovery Act of 2008

continues to be a major economic engine for our state, responsible for billions in revenue annually. The Royal City project is relying on a broad spectrum of state and federal funding: state HTF monies, tax credits, CDBG funds. “We were successful through HUD’s rural housing and economic development program to secure some funding as well.” When it’s completed in late 2009, Catholic Charities Housing Services will be the owner/manager of the property.

The LIHTC program represents a huge portion of the funding—more than 60%. “Without that, at best we would have been stalled for quite a while,” Marty says.

In addition to the very specific breakthrough in general public use language, Marty says he is heartened by H.R. 3221’s focus on targeting tax credit funding to projects in communities with the most pressing need for affordable housing. The Act gives tax credit allocating agencies the discretion to award these projects a 30% “basis boost.”

“The bottom line is that there are still tremendous needs in rural Washington State, and growing challenges in terms of securing resources,” Marty says. “In smaller communities, we don’t have the local resources that some of the larger cities in the state can provide for housing. We don’t have citywide bond issues, for example. This is where state and federal resources are absolutely instrumental, in helping to provide affordable housing. Be it the revision to the tax credit program, or the creation of the national HTF, these are both very positive developments of H.R. 3221 that will allow the creation of affordable housing to continue in rural areas. That’s the big picture from my perspective.”

At long last: A national housing trust fund

H.R. 3221 provided another huge win for all of us who care about ensuring a future for affordable housing production in the U.S. by establishing the National Housing Trust Fund (NHTF).

The impetus for the NHTF grew out of the campaign for state and local HTFs that Mary Brooks and the Center for Community Change (CCC) have conducted since the 1980s. In the early 1990s, Mary, National Low Income Housing Coalition (NLIHC) founder Cushing Dolbeare, and many other advocates put together an ambitious proposal for a national HTF. Unfortunately, that effort didn’t succeed—but that hasn’t stopped people from campaigning for this ever since.

Current NLIHC President Sheila Crowley walked me through the National Housing Trust Fund Campaign’s lengthy and hard-fought history since 2000. The goal of a national HTF has continued to have its adherents in Congress, but—no surprises here—securing a dedicated source of revenue has always been the sticking point. Over the years, the NLIHC, the CCC and other groups, including the Corporation for Supportive Housing, have been on the front-lines working with federal legislators and developing grass roots support for the NHTF Campaign. I’d like to commend Sheila and NLIHC members for their unflagging commitment to this effort.

The NHTF provides a dedicated source of funding, with an emphasis on rental housing production affordable to extremely low-income people. The dedicated funding will come from set-asides generated from Fannie Mae and Freddie Mac’s new business going forward; more on that in a minute. However, as Sheila points out, the NHTF is the first new federal housing production program since the HOME program’s creation in 1990 and the first new production program specifically targeted to extremely low-income households since the Section 8 program was launched back in 1974.

Getting the National HTF through—and getting it adequately funded

“Getting any piece of legislation through is a matter of keeping your ear to the ground and knowing when the opportunities arise,” Sheila observes. “Some of it is careful strategy, some of it is just luck. When the window opens, you’re able to move through. “But what’s clear to me,” she says, “is that the process on the work of the NHTF Campaign worked tremendously well—nearly

1 H.R. 3221 gives allocating agencies like the Commission the authority to increase the amount of tax credits provided to projects that might not otherwise be financially feasible. The Commission will use this authority to benefit projects in rural areas in 2009.

2 Here are some key aspects of the NHTF:
• Because the funding is not discretionary, it is not subject to Congress’s annual appropriations process and will not be competing with other HUD programs for funding.
• It is aimed primarily at producing rental housing for the poor: a minimum of 90% is designated for that purpose. Up to 10% may be applied to homeownership.
• The housing is targeted to extremely low-income families: At least 75% must be affordable to people at 30% or below their community’s AMI, or at the federal poverty level, whichever is higher; the remaining 25% must be used for housing for very low-income people.
• The distribution formula to states and communities will be determined by the HUD Secretary by July 30, 2009.

WSHFC NEWSLETTER p. 5
6,000 organizations across the U.S. endorsed the campaign. We could call on these groups whenever there was a need to make calls to their legislators. The time that it took to develop this grass roots capacity was well spent. There wasn’t a single member of Congress who didn’t know what was at stake. In the House we had the vote of every Democrat, along with a substantial number of Republicans. This continued through repeated votes in the House that were either direct votes or proxies.

Sheila also strongly credits the advocacy of House Financial Services Committee Chair Barney Frank, who, at the beginning of the 110th Congress in 2007, “told us he would make the NHTF a priority.”

As an aside, I’d like to pass along Sheila’s praise for Washington State’s congressional delegation and their support of the NHTF Campaign. “The Washington delegation backed what we needed to do. Washington advocates made the calls. They’re a powerful force. You should know that Washington State is truly one of our models for the rest of the country.”

But back to issue of funding. At the moment, because of the uncertain status of Fannie Mae and Freddie Mac, it’s unclear what the impact of their takeover by the Federal Housing Finance Agency (FHFA) will mean. “The good news,” Sheila explains, “is that the new Affordable Housing Fund, which comprises both the NHTF and the Capital Magnet Fund, is not based on profits generated by Fannie and Freddie, but on their volume of new business. They are doing a lot of new business, because they’re basically the only game in town for the secondary mortgage market, and are buying about 70% of the mortgages right now.”

On the other side of the coin are the powers of the new regulator, now the conservator of Fannie and Freddie. FHFA has the authority to suspend contributions to the Fund should these pose financial risk to the companies. But, Sheila points out, the funds were never going to be released until 2010, which gives the markets time to stabilize. “Our hope is that we can ride out this crisis, and that decisions will be made that will stabilize Fannie and Freddie. And, that we’ll end up with better GSEs [Government Sponsored Enterprises] or whatever they are in the future, and the money to fund the NHTF will stay there.”

Bear with me, because there’s yet another wrinkle to this story: Even in a best-case scenario, with Fannie and Freddie stabilized and housing markets in good working order, the funding generated by these set-asides won’t be enough. If you do the math and subtract all the large print and the fine print, including 25% of the funding that will be taken off the top and placed into an FHA reserve fund, the funding generated by the set-asides will amount to some $300 million to the NHTF in 2012. That’s before having to divide that number among our 50 U.S. states, six territories, and Washington D.C.

“The amount is totally inadequate,” Sheila says simply. “But it’s an amount to get started and get up and running. Now that we’ve achieved this important milestone, the NHTF Campaign can turn its attention to identifying and advocating for additional sources of dedicated revenue. Our goal for the NHTF is 1.5 million homes in the next 10 years. To get there, we want to build this program to $5 billion a year.”
Modernization of FHA—and important changes for first-time homebuyers

H.R. 3221 includes numerous positive changes on the homeownership side of the affordable housing equation. The Federal Housing Administration (FHA) Foreclosure Prevention Refinancing Program authorized $300 billion for distressed borrowers facing foreclosures. But what about people seeking to buy their first home? What kinds of changes are they potentially facing?

I spoke with Leslie Martin, a senior loan officer with Eagle Home Mortgage in Seattle, to get her take on how the inclusion of the FHA Modernization Act in H.R. 3221 is impacting the first-time homebuyer marketplace in our state. Leslie has been in mortgage lending for close to three decades. Working with first-time homebuyers and downpayment assistance programs is a special area of expertise for her. She works with the Commission’s House Key programs as well as other downpayment assistance programs to help clients purchasing homes in King, Pierce, and Snohomish Counties.

One of the first things that Leslie emphasizes is that, in this market, change is the order of the day. “In general, the job of a mortgage loan officer is so much more complicated now than it was before. We’ve gone from the situation of being experts, familiar with all the mortgage programs out there and able to advise a particular homebuyer on which loans would work best for them. We are now, essentially, having to relearn all of the parameters for conventional lending.”

The good news is that during these challenging times, “FHA loans have not seen the same type of rapid, erratic changes that we’ve seen with conventional financing.” FHA continues to provide a measure of stability in our hard-hit housing markets. It is, in fact, the largest insurer of mortgages in the world. Many details about the changes in the FHA programs set forth in H.R. 3221 are impacting the first-time homebuyer marketplace in our state. Leslie has been in mortgage lending for close to three decades. Working with first-time homebuyers and downpayment assistance programs is a special area of expertise for her. She works with the Commission’s House Key programs as well as other downpayment assistance programs to help clients purchasing homes in King, Pierce, and Snohomish Counties.

One of the first things that Leslie emphasizes is that, in this market, change is the order of the day. “In general, the job of a mortgage loan officer is so much more complicated now than it was before. We’ve gone from the situation of being experts, familiar with all the mortgage programs out there and able to advise a particular homebuyer on which loans would work best for them. We are now, essentially, having to relearn all of the parameters for conventional lending.”

The good news is that during these challenging times, “FHA loans have not seen the same type of rapid, erratic changes that we’ve seen with conventional financing.” FHA continues to provide a measure of stability in our hard-hit housing markets. It is, in fact, the largest insurer of mortgages in the world. Many details about the changes in the FHA programs set forth in H.R. 3221 are still filtering down to Leslie and her colleagues, but she singles out some of the key changes and offers her observations:

- **The FHA’s loan limit has been increased from 95% of area median home price to 115%, up to 150% of the GSE conforming loan limit or $625,000, effective 1/1/09.** As far as the impact on first-time homebuyers, this probably has a smaller impact in Washington State than it may in other areas,” Leslie says. “For the most part, the first-time homebuyers that we work with don’t find current FHA loan limits an obstacle—and are well-served by that limit.”

- **Streamlined processing for FHA condos is anticipated.** “We haven’t seen the details of that yet. But what we find in King, Pierce, and Snohomish counties is that for low-income and first-time homebuyers, condos are an affordable option. In the last year or so, Freddie Mac and Fannie Mae have made their guidelines for lenders more complicated and stringent for reviewing and working with condos. So, having any additional flexibility through FHA programs would be valuable.”

- **A downpayment of at least 3.5% for any FHA loan will be required; the implementation date of this change is delayed to loans with new case numbers issued after 1/1/09.** “No portion of closing costs can be factored into that minimum borrower contribution,” Leslie explains. “One of the things that this means is that downpayment assistance programs, including the Commission’s House Key program, are more important than ever.”

- **A 12-month moratorium on HUD implementation of risk-based premiums.** This is in force 10/1/08 through 10/1/09. “During the last six months or so, FHA instituted risk-based pricing for buyers with credit scores below 620, with tiered fees based on the degree of risk. This fee was added to the closing costs and made it more expensive for first-time homebuyers to afford a home. This temporary roll-back is important for first-time homebuyers.”

- **Prohibition of seller-financed downpayments.** “In a market where housing prices are stagnant or declining, with these kinds of programs, you can quickly owe more than a property is worth,” Leslie says. “I read recently that 40% of the FHA loans going into
foreclosure during the last year involved this kind of downpayment program.” Leslie points out, though, that Congress is now trying to push through legislation to allow seller-financed programs like HART and Nehemiah to continue with some restrictions—such as making them available only to buyers with higher credit scores.

More good news for homebuyers and housing markets

Leslie also commented on other provisions of H.R. 3221 that should help first-time homebuyers—and our housing markets:

New federal loan originator education, licensing, and oversight requirements.
“Today it’s wonderful in terms of returning competence to the system and elevating professionalism and ethical standards. This creates a more uniform, consistent level of oversight and licensing across the board.”

First-time homebuyer refundable tax credit equal to 10% of the purchase price of a principal residence, not to exceed $7,500. “This is a pretty powerful credit in the first year after purchasing your home. But it’s important to note that it can’t be combined with the Commission’s House Key Program.”

Stronger regulatory oversight for Fannie and Freddie. “Over the past year and a half or so, it’s become harder and harder for individuals—whether first-time homebuyers or those looking to refinance their home—to qualify for financing. Currently, the quality, from a risk standpoint, of loans being made today is much stronger. Yet the market doesn’t really recognize that quality in terms of pricing. Any recognition that new loans being made today are of a higher quality could make a big difference for first-time homebuyers.”

Changes cause confusion

Unfortunately, much of the new legislation is confusing to both homebuyers and realtors. “I have gotten many calls from clients in the last few weeks, indicating that they think that all downpayment assistance programs are going away,” Leslie says. “That’s not the case. I’ve had Realtors call me in a panic. One broker apparently made an announcement at a sales meeting that the House Key program was gone! Misunderstandings are out there in the media. I’ve had some pre-approved clients step out of the market because it’s just too scary for them. They don’t understand all this information. I’ve been trying to get the word out that all of the House Key downpayment assistance programs are still available, along with a handful of programs like Pierce County’s.”

Right now, though, Leslie sees a pattern of more education and common sense on the part of first-time homebuyers. “More first-time buyers are really thinking about: Given my budget, what can I afford?” she notes. “In the past, people thought prices were going to go up and up and up. They saw housing as an investment as opposed to shelter. Now there’s been a real switch in outlook. I credit this not just to homebuyer education, but also to information in the media. People are realizing that buying a home is a long-term commitment. And it has to make sense for the long term.”
Housing Bond and Tax Credit Modernization: More resources, greater flexibility for states

Two crowning achievements of H.R. 3221 are the changes made to the federally authorized tax-exempt housing bond programs and the LIHTC program. The new powers, flexibility, and resources granted are significant. This legislation is the result of years of concerted effort to gain a strong consensus among state housing finance agencies (HFAs) and other constituencies on what was needed—and what works.

Barbara Thompson is the extremely capable Executive Director of the National Council of State Housing Agencies (NCSHA). She has provided consummate leadership on these issues at the national level. Credit also particularly goes, she asserts, “to the state HFAs that we represent and that worked shoulder to shoulder with us through their congressional delegations to get these changes accomplished.”

In the preceding pages, I’ve already mentioned a number of these changes, including $11 billion in new housing bond authority, the clarification of public use language, and a 30% “basis boost” to low-income housing developments under the tax credit program that require more support. There are many, many more valuable provisions in this legislation, not the least of which are a large increase to the tax credit cap for 2008–2009, and abolishing the Alternative Minimum Tax (AMT) on both bonds and credits.

A big part of the work for Barbara and her staff—and all of us who work at the state level as allocating agencies—was convincing legislators that the changes we were asking for were key to making these programs more effective—and to securing healthier housing markets. “At the end of the day,” says Barbara, “the real victory in this legislation is that we were able to get critical new resources and more flexibility to use them in this bill. Just because there was a big focus on housing, it did not automatically translate that the bond and credit programs would be such beneficiaries within H.R. 3221.”

“When we first started talking about this to lawmakers, they would say: ‘That’s not a stimulus. We’re looking for things like giving people rebates, and tax credits to buy homes.’ We had to fight every step of the way to make the case that these programs, the additional resources, and the additional powers that the legislation gives states to run these resources, made sense within the stimulus context.”

Here’s an overview of these major wins:

The bond cap increase

Last fall, as part of its response to the housing crisis, the Bush administration proposed that states could use Mortgage Revenue Bonds (MRBs) for refinancing subprime loans. Barbara explains that their proposal was to give states the re-fi authority, plus some additional injection of cap that could be used for that purpose. “One of the many great victories accomplished in this legislation, was taking that kernel of an idea, and going to Congress and saying: ‘Build on this. We need more. Re-fi authority is not enough,’” she says. “With the market today, there is virtually no flexible, affordable mortgage money out there for first-time homebuyers. So we said, let’s not just address the re-fi side of things—we recognize that’s important, but let’s make sure that we can continue to get money to first-time homebuyers, who are on the margin, and who might need a little more flexibility underwriting.”
The further victory was in convincing Congress that in order to stimulate the economy and the housing market, and help people who were struggling, the multi-family bond part of the market should not be overlooked. Ultimately, Congress also significantly broadened the way in which states can use the new authority from the Administration’s original proposal.

“The two people who truly led that effort within Congress were Senators John Kerry of Massachusetts and Gordon Smith of Oregon. They carried it for us, all the way through the Committee—and, there were a number of tries to get it removed from the bill on the Senate floor.” Oregon, like Washington State, is not experiencing the level of foreclosures like Florida and California. States have had differing needs. “It was important that when the authority went out to states, that they’d be able to use it for the needs that were the most pressing for them. And that’s what the bill does. Some states have needed more re-fi authority. Others can put some of it to productive use to help first-time homebuyers.”

**Housing credits: From top to bottom, major enhancements to an already successful program**

Here’s the background story on the tax credit program: After the last cap increase for the LIHTC program in December 2000, NCSHA began to consider what could be done to make this very successful program even stronger. About four years ago, NCSHA formed a task force; I served on it, along with representatives of about 18 other states. We worked on this for well over a year, looking at the program from top to bottom and repeatedly soliciting input from the housing industry. We did this as well for the tax-exempt bond program, but ended up with more recommendations for the housing credit area.

Barbara puts it this way: “The goal was to have a set of changes that wouldn’t cost too much, but would significantly improve the program. We’ve been talking about this effort, and urging Congress to adopt these changes for a number of years, but H.R. 3221 gave us the opportunity and a legislative vehicle. It was more important than ever given the state of the housing market and the economy. Again, our recommendations didn’t fit neatly into the stimulus context. Multi-family housing is a long-term strategy. Congress was looking for quick fixes to stimulate the economy in the housing sector. It took a little bit of convincing, but we had a great advocate in Chairman Rangel of the House Ways and Means Committee.”

She continues, “The other big help we had on the credit side? Do not overlook Washington’s own Senator, Maria Cantwell. Although the Senate bill was initially crafted in such a way that it was much narrower, ultimately, Senator Cantwell was instrumental in convincing the Senate to accept what the House sent over on this. She had introduced a bill earlier in the session that contained virtually everything that Chairman Rangel’s bill contained. She had put her mark in the sand and was right there to make the case in the Senate.”

Senator Cantwell and many other legislators recognized that the states were successfully using the discretion that the housing credit program already gave them. It was the right time to give the states more discretion in a number of areas, to allow them to extend the reach of the program—to enable it to serve more people and more areas.

“We had the advantage: We had agreement,” Barbara concludes. “We’d already vetted these proposals within our own organization and within the industry. We could hit the ground running. We were all fighting for the same thing.”
Looking ahead:
Boldness is called for

Last month, during Housing Washington 2008, our annual statewide housing conference, I asked my long-time colleague Norm McLaughlin for his insights. Norm is director of the Kitsap County Housing Authority (KCHA) and the immediate past president of the National Association of Local Housing Finance Agencies (NALHFA). He was quick to laud the work accomplished by H.R. 3221—and to emphasize that we can’t rest on these laurels.

“All of the tax credit changes, for example, are things that will make the program much easier to work with, and more accessible, and they’re giving us more resources,” Norm says. But he is concerned about the gap in many ongoing tax credit projects across the country—and those in the future. It’s not that these projects are bad deals, or that the sponsors aren’t good sponsors, he explains. It’s a double whammy: Construction costs are on the rise, while at the same time, the markets have shifted dramatically. The appetite investors have for these projects has waned, and as a result, “the amount of money low-income housing developers can get for the sale of their credits has gone down.”

Right now, he points out, although most of the 18 Washington State tax credit projects allocated for 2008 are moving forward, at least a few of them are struggling under these difficult setbacks.

For this reason, Norm and several of his colleagues asked Senator Patty Murray to place $250 million in the HOME program for 2009 to help fill the gap for tax credit projects that are struggling across the nation. Senator Murray, as Chair of the Transportation, Housing and Urban Development Subcommittee of Appropriations, has allocated $240 million for this purpose in the 2009 HOME budget. Of course we don’t yet know if any appropriations bills will be passed this year, but “we need to continually tell our leaders in Congress that they need to be bold, they need to do more, and they need to do it quickly,” says Norm. “Affordable low-income housing projects are in jeopardy.”

That said, there are many things about H.R. 3221 that Norm is pleased about. One aspect of the tax credit modifications is directed specifically at helping employees of the U.S. military. “It deals with the way that their income is counted, and it will be of great benefit to us in Kitsap County,” he says.

We’re not yet out of this crisis

Another potentially significant stimulus for KCHA’s mission is the section of H.R. 3221 entitled “Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes”: it provides $3.92 billion in grants to states and localities for these homes and $180 million for housing counseling. Among its stipulations is that at least 25% of the funds used for home purchase and redevelopment will be used to house individuals and families with incomes no higher than 50% of area median income. For Norm, this means that housing authorities and nonprofit organizations could purchase and manage these homes to provide rentals to low-income special-needs groups like homeless people, seniors, and the chronically mentally ill.

“We expect Washington will receive about $28 million and it offers a great opportunity,” Norm says.

Norm’s agency is the only provider of HUD-certified foreclosure counseling in Kitsap County. “We get almost 80 calls a day to help people in foreclosure. Our counselors can’t keep up. We need to hire more,” he says. “This bill has some funding for that—and we need to get it.”

Norm has two things to say in conclusion. One is his kudos to Senator Maria Cantwell for her work in representing the people of our state on the Senate Finance Committee. “I want to celebrate Senator Cantwell for her new position, for being a leader and taking action, less than a year after getting on that committee,” he says. “It was magnificent! We’ve been working on some of these tax credit changes for many years. Then all of a sudden our senator gets on the committee, sponsors a bill, and
gets it grafted onto this omnibus housing bill. It knocked everybody’s socks off.
“The most important thing we need to tell people is to continue to communicate to our representatives in the Senate and the House to take steps quickly to save the economy—and the housing sector.”

**Pay-off after years of work**

Clearly, the crisis now roiling the U.S. financial markets is casting a very long shadow over the legislative gains made by H.R. 3221. Plenty of work lies ahead. But many huge strides were made by this Act, and we are right to celebrate them because many of the landmark provisions are the result of years of hard work by local advocates and national leaders.

We successfully laid the groundwork for the time when Congress would focus on affordable housing. The sub-prime crisis and the slowing economy finally provided that focus and we were ready. Yet many in this country are still struggling and the financial markets have been in crisis. Clearly, our work is not done. However, thanks to everyone who participated in the making of H.R. 3221, and who continue to make their voices heard in Washington, D.C., we have new tools and new resources to bring to the table. It was a huge step forward. Our challenge now is to put these changes and resources to work!

---

“*I want to celebrate Senator Cantwell for her new position, for being a leader and taking action, less than a year after getting on that committee — It was magnificent!*”

**Norm McLaughlin**, Director of the Kitsap County Housing Authority (KCHA)