

TESTIMONY OF DOUGLAS M. BIBBY
PRESIDENT OF THE NATIONAL MULTI HOUSING COUNCIL
ON BEHALF OF THE
**NATIONAL MULTI HOUSING COUNCIL/
NATIONAL APARTMENT ASSOCIATION**
JOINT LEGISLATIVE PROGRAM
BEFORE THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
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The American apartment industry...working together for quality, accessible, affordable housing.

Chairman Ney, Ranking Member Waters, and distinguished Members of this Subcommittee, my name is Doug Bibby. I am President of the National Multi Housing Council (NMHC), a national association representing the nation's larger and most prominent apartment firms. NMHC operates a joint legislative program with the National Apartment Association (NAA), an industry group representing over 30,000 apartment executives and professionals. It is my pleasure to testify on behalf of both organizations.

NMHC and NAA represent the nation's leading firms participating in the multifamily rental housing industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management, and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is the largest national federation of state and local apartment associations. NAA is comprised of 164 affiliates and represents more than 30,000 professionals who own and manage more than 4.9 million apartments. NMHC and NAA jointly operate a federal legislative program and provide a unified voice for the private apartment industry.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of housing in America, in particular the topic of the hearing today, "Successful Homeownership and Renting through Housing Counseling." Today I will address the importance of counseling programs and provide several examples of how NMHC/NAA members engage in such programs. NMHC/NAA urge Congress to include programs that will benefit both renters and potential homebuyers in the proposed Office of Housing Counseling, such as those that I will discuss today.

BALANCED HOUSING POLICY

As the Subcommittee considers the proposal to establish an Office of Housing Counseling, it is essential to include programs that benefit *both* homeowners and renters. For almost fifty years, America's national housing policy has emphasized homeownership almost exclusively. But the truth is, America also has an acute need for rental housing. America needs apartment homes for the 80 million Echo Boomers who are already graduating from college and looking for housing. America needs apartment homes for the estimated 13 million immigrants who will come to this country in the next 10 years. America needs apartment homes for all those hard working families who are paying more than half their income for shelter. America needs apartment homes for every town that wants to accommodate population growth without giving up green space and adding to the nation's pollution and traffic congestion. Finally, America needs apartment homes for every city that wants to reclaim a decaying downtown neighborhood.

Not only does America need apartment homes, but a growing number of Americans want them. As American lifestyles have gotten busier, young professionals and empty nesters who could afford to buy are choosing to rent instead. They want the conveniences, amenities, shorter commutes and financial freedom that renting provides. Consider this: over the past five years, the fastest growing segment of apartment renters has been households earning \$50,000 a year or more.

Demographic trends make apartments even more important. The groups projected to grow the fastest between now and 2010 are the ones most likely to choose apartment living. If America does not adapt its housing policy to address these realities, our policies will become counterproductive and prevent us from solving other pressing housing problems, such as the growing affordable housing crisis, suburban sprawl, or urban decay.

As our nation's leaders, you must understand that apartment residents are not second-class citizens, and research shows that apartments do not cause property values to decline, crime rates to increase or traffic to worsen. Even if many of your constituents prefer to own a house—even if you personally own a house—you should know that apartments still create value for your community. Homeowners benefit from the fact that teachers, police officers, nurses/healthcare workers and firefighters can afford to live close to where they work. Apartments deliver important economic benefits. Towns without sufficient rental housing forego valuable consumer spending and discourage businesses from expanding or relocating there. To give one example, according to Maxfield Research and GVA Marquette Advisors, the Minneapolis-Saint Paul region forgoes an estimated \$265 million per year in consumer spending and business income because it lacks sufficient workforce housing. Finally, every citizen benefits from the parks that can be created in space saved by building apartments.

If America is serious about wanting to build more successful communities, Congress needs to balance the nation's housing policy to explicitly recognize the importance of apartments. NMHC/NAA urge policy makers to challenge old ways of thinking and work together to craft new housing policies that ensure everyone has access to decent and affordable housing – regardless of whether they own or rent. That includes incorporating rental-specific counseling programs in the proposed Office of Housing Counseling.

COUNSELING SERVICES

NONPROFIT PRIVATE HOUSING MANAGEMENT PARTNERSHIPS

In order to assist apartment residents with making smart housing choices, our members offer several types of counseling programs. For example, the Columbus (Ohio) Housing Partnership (CHP), a nonprofit housing provider, offers various types of housing to meet the needs of individuals and families throughout central Ohio. CHP provides counseling to renters on how to rent and maintain their unit, financial counseling and homeownership counseling. CHP also provides resident programs that bring computer labs, resident councils, children's savings clubs, playgrounds, block watches and breakfast/lunch programs to apartment communities. CHP partners with Wallick Properties Midwest, a private property management organization and a member of NMHC, to manage most of its rental portfolio (1,700 units). CHP is a member of the Columbus Apartment Association, which is an affiliate of the National Apartment Association.

Such partnerships not only provide housing-related counseling services, but also other valuable community services. CHP's program is a commitment to provide a "start to finish" approach to housing services. In fact, just this past September, CHP provided 3,000 donated books for a "back to school" event in coordination with their housing management partners.

CHP PROGRAMS

CHP also has a Lease Option Program that includes the development of single-family homes utilizing the Low-Income Housing Tax Credit Program. These homes offer families who are not yet ready to purchase a home the opportunity to learn the responsibilities and benefits of homeownership while providing a safe, decent, affordable rental home for their children. If the resident successfully completes three years of occupancy in the house, they may be given an opportunity to sign an Option Agreement to purchase the home. Successful completion of residency means that the residents have paid all rent and other charges on time every month; maintained the home and fulfilled their obligations as required in the Lease Agreement; and have attended home maintenance and credit counseling programs provided by CHP. The purchase price the resident pays for the house will be determined at the time they are given the right to exercise the option to purchase, which will occur at the end of the 15-year tax credit period. The formula for determining the purchase price is contained in the Option Agreement. The formula contains a \$1,000 per year credit for each year they live in the house, so the longer they live there, the lower the purchase price will be.

CHP, a HUD-certified housing counseling agency, also provides a homebuyer education course that consists of eight hours of classroom time. One-on-one counseling is also available and downpayment assistance may also be available through CHP to qualified buyers. Among other things, CHP's homebuyer education course will instruct potential borrowers how to find a home and

negotiate a contract, how to apply for a mortgage loan, how to budget to purchase a home, and how to be a successful homeowner.

CHP is a member of the Housing Partnership Network and the Neighborhood Reinvestment Corporation, agencies that oversee and train nonprofit organizations that provide housing counseling programs. It is important to understand that there are existing programs that Congress should review prior to establishing any new programs.

RENTAL HOMEOWNERSHIP INITIATIVES

NMHC/NAA member firms also provide programs that allow the current residents of a rental property to obtain credits toward a new home purchase. While these programs vary, many set aside a portion of the rent for a future home purchase with an approved builder. These programs allow the resident to, in some cases, set aside 15 to 25 percent of their monthly rent as credit toward a new home purchase. The credit is determined by the amount of rent paid each month combined with the amount of time spent as renters. The programs often allow transferable credits and roommates to earn equal credit.

HISPANIC AND LATINO OUTREACH

NMHC/NAA believe that it is especially important to reach out to populations that may be in particular need of housing counseling. NMHC/NAA recently announced a new initiative with the U.S. Department of Housing and Urban Development (HUD) the National Hispanic Radio Network, and the National Association of Hispanic Real Estate Professionals to reach out to Hispanic and Latino renters. The partnership, formally spelled out in a Memorandum of Understanding (MOU), will provide consumer education to Hispanic and Latino renters and will help combat discrimination against them. The MOU notes that these groups tend to rent and that they will grow faster in numbers than the population as a whole. As part of the initiative, NMHC/NAA pledged to conduct a series of "leadership workshops" to promote best practices that create rental opportunities for Hispanics and Latinos. NMHC/NAA will also help develop and disseminate consumer education materials.

NATIONAL ACCESSIBLE APARTMENT CLEARINGHOUSE

In this country, we place a high value on personal freedoms. For people with disabilities, these freedoms continue to come, however slowly, within reach. As an example of this progress, the apartment industry has developed an effective means to connect individuals with disabilities with apartments that have been designed for, or adapted to meet, their needs: The National Accessible Apartment Clearinghouse (NAAC). With all of life's challenges, the National Accessible Apartment Clearinghouse believes that finding a place to live should not be one of them. NMHC/NAA highlight this outreach initiative as an example of a program that Congress may want to incorporate into the proposed Office of Housing Counseling.

NAAC maintains the only national database of accessible apartments, with a registration of more than 46,000 units. It's a vital resource for the disabled community and an excellent vehicle for apartment owners and managers to effectively market their accessible apartments. For years, builders have incorporated specially designed apartments for people with disabilities in their communities. Yet, without a viable means to reach this market, many of these custom-designed apartments remain vacant. The National Accessible Apartment Clearinghouse provides the long-needed answer. By providing the disabled community, a population that has been underserved in the past, with assistance finding a place to live, NAAC allows more Americans to share in the joy of independent living.

HOMEOWNERSHIP BANDWAGON

NMHC and NAA are very supportive of the need for Congress to address the issue of foreclosure. Like you, NMHC/NAA are concerned with the disturbing trends in the current market place that reflect high foreclosure rates, especially among individuals who participate in homeownership programs with low downpayment requirements. We are concerned that there is insufficient data on the potential impact of the "American Dream Downpayment Act" enacted last year to measure the success of a low downpayment programs on long-term homeownership and responsible homeownership. We are concerned that there is not enough data to justify the creation of the Administration's latest proposal for a zero-downpayment federally insured home mortgage for households that currently cannot qualify for FHA loans. This is just the latest in a series of private and public sector initiatives to push low- and moderate- income families into homeownership. NMHC/NAA feel that the time has come to ask whether "homeownership above all else and at any cost" is wise public policy or sound financial policy. It is essential that the proposed Office of Housing Counseling provide strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership.

The homeownership bandwagon is pushing too many Americans into financial peril rather than into financial security.

- Foreclosures of conventional loans are at near record-level, and FHA foreclosures are at their highest level ever and are still climbing!
- Rising foreclosures also create economic costs. Foreclosure affects more than just the family who loses their house. It creates losses for lenders, loan servicers, mortgage insurers, the GSEs and the city, county or township! One research report says total losses to all stakeholders conservatively average \$73,000 per foreclosed FHA-insured loans and \$26,600 for foreclosed conventional loans.

- Fully 22 percent of homeowners with a mortgage, or 10.3 million households, did not deduct the mortgage interest they paid from their tax returns, presumably because they did not itemize at all and thus took the standard deduction. The home mortgage interest tax deduction is of little benefit to many lower income homeowners.
- According to HUD, the only group whose housing conditions worsened between 1999 and 2001 were low- and moderate-income owners. While the number of renters with critical housing needs remained essentially unchanged during that period, we added one million new homeowners with incomes below 80 percent of the area median income who are paying more than 50 percent of their income on housing. This nine percent jump brings the total of such households to 14.5 million.

Low- and no-downpayment loans in particular are putting households at higher risk for default and may do more harm than good to local communities.

- Highly leveraged buyers are at risk for owing more on their house than their houses are worth. If prices in their neighborhood fall three to five percent in the first five years they own their house, and they have to move for personal or financial reasons, these cash-poor families will have to come up with 10 percent of their home's value in order to pay off their mortgage.
- These families can quickly find themselves trapped in distressed neighborhoods, especially since simply returning the keys to the lender is not a no-cost option. A 1995 study estimated that the average family loses \$7,200 through foreclosure. They also damage their credit rating, which makes it more difficult for them to buy, or even rent, another dwelling.
- According to William H. Rohe, director of the Center for Urban and Regional Studies at the University of North Carolina at Chapel Hill. "A lot of the affordable mortgages at this point are really pushing the envelope. They are qualifying people who really don't have a high probability of being a successful homeowner."

CONCLUSION

NMHC/NAA applaud that you recognize the need for high quality independent housing counseling programs, but we urge you to provide for a balanced approach that recognizes that apartment rental housing is a key element in the nation's housing. Although homeownership rates have continued to grow, the country also continues to have a shortage of affordable housing. In addition, we urge Congress to include housing counseling provisions in all proposed homeownership initiatives.

Over the past decade there has been an expanding effort to promote homeownership and, in particular, to expand ownership for low- and moderate-income families. At the same time, barriers to the development of rental housing continue—from new and more costly fees, to land use and zoning that prohibits multifamily housing, to movements by NIMBY activists to prohibit apartment housing. America’s approach to providing housing should be more balanced with a better understanding of the benefits that apartment communities provide. Apartments are a part of the solution to a wide range of issues, including, but not limited to: a wider range of housing choice, enhancing employment opportunities that support local economic development, solving congestion by increasing public transportation use, and increasing the local tax base at a rate often more favorable than single-family housing.

NMHC/NAA urge Congress to include programs that will benefit both renters and potential homebuyers in the proposed Office of Housing Counseling, such as those that I have outlined today.

Thank you for the opportunity to testify today.