H.R. 1985—THE FHA MULTIFAMILY LOAN LIMIT ADJUSTMENT ACT OF 2003

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

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H.R. 1985—THE FHA MULTIFAMILY LOAN LIMIT ADJUSTMENT ACT OF 2003

Tuesday, July 22, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:05 a.m., in Room 2128, Rayburn House Office Building, Hon. Bob Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Green, Ose, Miller of California, Tiberi, Renzi, Waters, Carson, Lee, Sanders, Watt, Clay, and Scott.

Chairman NEY. [Presiding.] The Subcommittee on Housing and Community Opportunity will meet this morning to hold a hearing on H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003. And we will have a markup after today's hearing.

I will also note that we will have opening statements. And also, without objection, all members' opening statements will be made a part of the record.

And of course, any statement that the witness has and the time has lapsed will be also made part of the record, without objection.

The Federal Housing Administration is one of the most effective programs, I believe, in helping low-to middle-income buyers purchase their first home. It was originally designed to encourage lenders to make credit more readily available and at lower rates.

Through FHA programs, HUD insures mortgages and loans, made by HUD-approved lenders, for a wide variety of purposes, including new construction, rehabilitation, property improvement and refinancing in connection with a wide variety of types of property.

FHA programs include all types of residential property: multifamily, single family, manufactured homes, non-residential commercial property, hospitals and certain other health care facilities. The FHA multifamily mortgage insurance program is a critical source of financing for affordable multifamily rental housing.

During the previous two years, Congress supported and implemented improvements to the program, including increasing the base loan limits by 25 percent and indexing the loan limits to inflation, which begins in 2004. As a result, loan volumes have increased significantly in many areas of the country, where the program previously was not working.

However, there are a number of high-cost urban markets, such as New York, Boston, San Francisco, Chicago and Los Angeles, where construction costs are obviously significantly higher than in other areas of the country. And the high-cost factors have not been sufficient to allow the use of the FHA multifamily mortgage insurance programs.

Under current statutes, the HUD Secretary may increase the loan limits in high-cost geographic areas, up to a maximum that is expressed as a specific percentage. Currently, it is 110 percent above the statute's base limit.

The secretary may also increase the loan limits on a project-by-project basis, up to a level that is a specific percentage. Currently, that is 140 percent above the base limit, if it is deemed necessary because of high costs.

H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003, was introduced by Congressman Gary Miller, May the 6th, 2003. It would amend the National Housing Act to give the HUD Secretary the discretion to increase the maximum mortgage amount limit for FHA-insured mortgages for multifamily housing located in high-cost areas.

In addition, it would change the statutory maximum adjustment percentage for geographic areas from 110 to 170 percent, which would change HUD's maximum high-cost percentage to 270 percent. Providing the HUD Secretary additional flexibility to increase the maximum loan limits in high-cost areas would greatly improve the FHA multifamily mortgage insurance programs.

With severe shortages of affordable rental housing in most of the high-cost markets, this change would enable developers to provide much needed and affordable housing to low-and moderate-income families.

I would also note that the ranking member is a sponsor of this bill—of the Housing Subcommittee. And also Ranking Member Mr. Frank supported the bill, who is the ranking member of the full committee.

And with that, I would turn to Mr. Scott. Do you have an opening statement? Thank you.

Mr. SCOTT. Yes, thank you very much, Chairman Ney. I want to thank you for holding this important hearing today regarding Multifamily Loan Limit Adjustment Act, H.R. 1985. I also want to thank the distinguished panel of witnesses today for their testimony.

From July, 2001 to July 2002, my State of Georgia ranked fourth in the nation in housing growth, both in the number of homes built and the percentage increase in housing. I represent parts of 11 counties in the metro Atlanta and suburban Atlanta communities.

And five of these counties represent five of the top housing growth counties in Georgia. So five of the top housing growth counties in Georgia are located in my district.

Part of this explosive growth is due to low interest rates. And part is due to the rapid expansion of the south and east suburbs of Atlanta.

While Atlanta would not be considered a high-cost city for the purposes of this legislation, I am concerned with home ownership rates, particularly home ownership rates of minority groups. From 1998 to 2002, for example, African-American home ownership rates rose from 45.6 percent to 47.3 percent.

However, compared with the national average increase from 66.3 percent to 67.9 percent, we can see that African-American home ownership still lags far behind. With interest rates at historical lows, I believe that we must push even harder to help increase minority home ownership rates.

And addressing FHA home loan limits is part of that equation. I strongly support H.R. 1985. And I look forward to its quick passage today.

Thank you very much, Mr. Chairman. Yield back the balance of my time.

Chairman NEY. The gentleman yields back the balance of his time.

Additional opening statements? Opening statement, Mr. Sanders?

Mr. SANDERS. Sorry, Ms. Lee was next.

Ms. LEE. Thank you, Mr. Chairman. And thank you very much for not only for yielding, but for being polite.

Thank you, Chairman Ney and also, to our ranking member in her absence this morning.

For a minute, I would like to just say that under the leadership, of course, of Chairman Frank and many others, we have enacted into law legislation to increase the multifamily loan limits and increase the dollar amounts by approximately 25 percent.

During last year, I mean, I think it was during a committee hearing last year, the markup of H.R. 3995, we agreed and passed out of committee a bill which would have done all of the things in H.R. 1985. Now from what I remember, H.R. 3995 was never placed on the calendar.

The Financial Services, though, did include two provisions affecting FHA multifamily loan limits: one, which would have provided for annual inflation indexing of the basic statutory per unit loan limit and provide for annual indexing; and a second provision, which would have raised percentage adjustments that the HUD Secretary could use in high-cost areas.

This authority to raise the percentage adjustment, in my opinion, is very critical. In many areas in our country very similar to my own district—the 9th Congressional District of California that includes Oakland—our housing costs are outrageous.

And there is a dire need to provide affordable, quality multifamily housing. But yet, of course, just like many districts, we are faced with an extremely scarce housing stock.

So I look forward to this hearing and support H.R. 1985, because it will raise the fact that HUD can increase the basic multifamily limits in high-cost areas from 210 percent to 270 percent and increase the basic statutory, per unit multifamily loan limit, on a project-by-project basis, from 240 percent to 270 percent.

However, changing the limits of course is not the final answer to the affordable housing crisis. In addition, we must authorize and execute a national affordable housing trust fund.

By creating a national housing production program, we will ensure that at least 1.5 million new affordable houses—multifamily units included—will be built across this country. By creating a national housing trust fund, we can truly help those in need by calculating the area need and the median income.

Money will go to states and localities based on a formula which weighs their true need. We must take the issue of affordable housing really to the next level, Mr. Chairman.

And I feel that a national affordable housing trust fund will guarantee that next step. A national affordable housing trust fund will guarantee, for at least 50 years, that the housing built with trust fund money will stay affordable.

So this bill, H.R. 1985, hopefully will pass out of this committee because I think this is the first step in changing an antiquated formula that restricts HUD and our local housing agencies from providing the best comprehensive service possible. But I also support the trust fund.

And I want to thank my colleague from Vermont, Mr. Sanders, who I know will talk more about it. But I think that as we debate and look at this bill, we should also look at what producing new affordable housing means in terms of housing stock.

Thank you, Mr. Chairman. And I yield.

Chairman NEY. I want to thank the gentlelady for her statement.

The gentleman, sponsor of the bill, Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you, Chairman Ney. And I want to thank you for convening this hearing today to examine FHA's multifamily mortgage insurance program.

I would also like to thank the ranking member of this full committee, Mr. Frank, for working with me in introducing H.R. 1985, the FHA Multifamily Loan Adjustment Limit Act of 2003.

Mr. Chairman, it is not really often that Democrats and Republicans from across the spectrum see eye to eye. And it is a rare pleasure to have Ms. Waters and I looking at an issue and agreeing on it because generally, on housing issues, we have different opinions.

But on this issue, we are in agreement that this has to be done. And because of the high-cost markets, where land and construction costs are significantly higher than in other areas of the country, there is no question that FHA multifamily mortgage insurance limits are not keeping pace.

And that is a problem we conservatives and liberals alike have come together today to solve.

Having been a developer for over 30 years and many of my friends are, the rapidly escalating costs of land and construction, especially in California, are making it very, very difficult to provide affordable rental units. The slowdown in affordable rental housing production has resulted in a significant gap between the demand and the supply of affordable rental housing.

Increasingly, America's working families are unable to find decent, affordable homes in the communities where they work. In fact, according to a report released by the National Housing Conference last November, more than 4.8 million working families spent more than half of their income on housing in 2001.

This was an increase of 60 percent of families in 4 years. This is unacceptable.

Today, many public servants in my district—police officers, firefighters and teachers—are not able to live in the communities in which they serve or grew up. I call these people the new homeless.

Exactly who are these new homeless? In my district, it might be a couple; the husband is a firefighter and the wife a teacher.

They have good jobs and make a good living. But their combined income does not enable them to rent a modest, one-bedroom apartment, which rents for over $1,000.

And if Congress does not do something to promote affordable rental housing, this will not get easier for these couples over the years in my district. Orange County, California, has the third biggest rent increase out of the 25 largest metropolitan areas and 11 western states.

Thirty-three percent of renters in Orange County sent 35 percent or more of their household income to their landlord. This is a problem all over southern California.

The Inland Empire in Los Angeles ranked first and second in terms of rent increases. As you will hear from the panel today, it is a national problem. And Congress must work expeditiously to address it.

The FHA multifamily mortgage insurance program has operated successfully for over 65 years, working with private sector parties to expand the supply of rental houses. Over the past six decades, this public-private partnership has leveraged more than $100 billion of private sector investment to provide rental housing for more than four million families and the elderly throughout the country.

FHA's multifamily mortgage insurance program enables qualified buyers to obtain long-term, fixed-rate, non-recourse financing for a variety of multifamily properties that are affordable to low-and moderate-income families. In fiscal year 2002, Congress provided for a 25 percent increase in the multifamily loan limit, which addressed problems resulting from increased construction and land costs over the past decade.

This increase in the FHA loan limit was essential. As multifamily loan limits had been unchanged for 10 years and had virtually shut down the FHA new construction program in most major cities and second-tier cities throughout the country.

In addition, in 2002, the President signed the FHA Down Payment Simplification Act, which will index the FHA multifamily loan limits to the consumer price index, beginning in January 2004.

There is one final step to increase the FHA multifamily loan limits in high-cost areas. This is the last hurdle in making these programs as effective as they can be in providing affordable rental units.

While FHA multifamily loan limits were increased in 2002, according to the Department of Housing and Urban Development data, there was only one FHA-insured multifamily loan in new construction or substantial rehabilitation approved in California in each of the fiscal years 2002 and 2003. And when you look at the demand, especially in our area in California, to think that there was only one loan made, there is a real problem. And that problem is indexing.

My bill, H.R. 1985, establishes a mechanism for addressing the need of new construction and substantial rehabilitation in extremely high-cost areas in the country. It gives the Secretary of HUD the authority to increase the maximum high-cost percentage in extremely high-cost areas from 210 to 270 percent.

I look forward to this hearing today, Mr. Chairman. Thank you very much.

Chairman NEY. Mr. Sanders?

Mr. SANDERS. Thank you, Mr. Chairman. And thank you for holding this important hearing and markup of H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003.

This legislation would amend the National Housing Act to increase the maximum mortgage amount limit for FHA-insured mortgages for multifamily housing located in high-cost areas. With severe shortages of affordable rental housing, this change would enable developers to provide much-needed, new affordable housing to low-and moderate-income families.

Mr. Chairman, I am very pleased to see affordable and fair housing as a priority of this subcommittee, as it must be. Today, I would like to present you with a letter, signed by half of the members of the Housing Subcommittee and, in total, six Republicans as well, asking for a hearing on the National Affordable Housing Trust Fund, which Ms. Lee just mentioned a moment ago.

And I ask for unanimous consent that a copy of this letter be inserted into the record.

Chairman NEY. Without objection.

[The following information can be found on page 59 in the appendix.]

Mr. SANDERS. As Mr. Miller just indicated and Ms. Lee before, I think there is an understanding, regardless of one's political persuasion, that we are in the midst of a major, major housing crisis in this country. I think that, in terms of seriously addressing the issue and building the quantity of affordable housing that we as a nation need—and by, the way, putting substantial numbers of people to work building that housing—I think that there is little doubt that the National Affordable Housing Trust Fund is that piece of legislation, that has been presented in Congress, that would do that.

Mr. Chairman, we have 203 co-sponsors, Mr. Chairman, 203 cosponsors—Republicans, Democrats, Independents—on this legislation. Amazingly enough—and this is something I have never experienced in my life—we have over 4,000 organizations.

And not just housing organizations or low-income organizations or trade unions, we have banks and business organizations in support of this legislation. Four thousand separate organizations.

Because business organizations know that if there is not affordable housing in the area, they cannot maintain a steady source of labor to produce the products that they need.

So Mr. Chairman, I would respectfully request that given that we have 203 co-sponsors on this legislation, 4,000 organizations in support of it, that we hold a hearing in order to discuss it. And I would yield to my friend, the chairman.

Chairman NEY. Yield for a response?

Mr. SANDERS. Yes, or not.

Chairman NEY. No, appreciate the letter. And I will definitely take it under advisement.

Mr. SANDERS. I thank the chairman.

Chairman NEY. Thank you.

Other members wishing to make opening statements? Any other members wishing, have a desire to make an opening statement.

If not, we will start with our panel. I want to welcome Mr. Weicher, who is Assistant Secretary for Housing and Federal Housing Commissioner at the U.S. Department of Housing and Urban Development, a position he assumed nearly 2 years ago on June 1, 2001.

Mr. Weicher has held policy positions at HUD in two previous administrations, as Assistant Secretary for Policy Development and Research and as HUD's Chief Economist. He holds a Ph.D. in economics from the University of Chicago and is the author of 12 books on housing and urban issues.

Mr. Weicher has been a Professor of Economics at the Ohio State University, the greatest university in the United States. And the call at Tempe was absolutely correct.

With that, we will let you begin. I think you need to get your microphone.

STATEMENT OF HON. JOHN WEICHER, ASSISTANT SECRETARY, HOUSING/FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WEICHER. There we are. Sorry.

Thank you, Mr. Chairman. And thank you for inviting the department to testify this morning.

I want to start by stressing that the administration and the department are firmly committed to having FHA participate as a strong and effective player in the financing of rental housing nationwide. We have taken several major actions in that effort.

First, we have put the multifamily insurance programs on a sound actuarial basis, enabling most of them to operate without the need for appropriated credit subsidy. Second, we have instituted an annual process of updating the mortgage insurance premiums, so that the programs continue to operate on a break even basis.

Third, we have established a much faster underwriting process, saving the industry time and money. Fourth, Secretary Martinez asked Congress for a 25 percent increase in the multifamily mortgage limits, the first increase in 10 years, which you approved.

This administration inherited serious problems in FHA's basic multifamily housing insurance program, the Section 221(d)(4) program. Three times in 8 years, the program was closed down because it required credit subsidy and the available credit subsidy allocation was exhausted.

The last time was in May 2001, when the department was forced to suspend multifamily insurance processing. To prevent further closures, the department determined to place the program on a break-even basis.

This necessitated raising the premium from 50 basis points to 80 basis points for fiscal year 2002. Many in the industry were very concerned by this necessary increase.

They worried that it would weaken the viability of the program and its ability to serve moderate-income families. That did not happen.

In fiscal year 2002, FHA insured $2.8 billion worth of Section 221(d)(4) projects, nearly double the 2001 total, and the largest volume in 20 years.

At the same time, the department made a commitment to conduct a systematic analysis of how the credit subsidy rate was calculated for the first time since credit reform was enacted in 1990. We found that the Section 221(d)(4) program could be operated on a break-even basis at a much lower premium of 57 basis points.

This premium went into effect at the beginning of fiscal year 2003. In addition, we are now repeating the analysis every year to determine what the appropriate premium should be. And as a result, the premium will be cut again to 50 basis points in October for the new fiscal year.

These efforts by this administration have ensured that the Section 221(d)(4) program will not repeat the experience of past shutdowns. Mortgage bankers and developers are assured that they can continue to bring loans to the department.

Moreover, once applications come to the department, we now process them faster, using our multifamily accelerated processing procedure. MAP was instituted on a national basis in fiscal year 2001 and provides guaranteed processing time frames. And it has resulted in a significant increase in mortgage applications and endorsements.

Our other major initiative has been to increase the mortgage limits, as I mentioned. Shortly after assuming office, Secretary Martinez called for a much-needed 25 percent increase in the statutory loan limits, which Congress enacted in 2002.

Also at that time, Congress approved indexing the FHA mortgage limits, beginning next January. Indexing will further increase the loan limits, year by year. It will enable FHA to keep pace with inflation and meet the needs of families seeking moderately priced rental housing.

Clearly, annual adjustments provide a better way to compensate for increased costs than legislating specific dollar increases at irregular intervals. The 2002 increase represented a catch-up for the inflation that occurred during the preceding decade.

Thanks to all of these changes, in fiscal year 2002, FHA insured over $7 billion worth of projects for all of our multifamily insured housing programs combined. This is our highest overall production on record. And the projections for 2003 indicate that we will be exceeding the 2002 numbers.

Through the first three quarters of fiscal year 2003, we have issued commitments for a total of $5.3 billion, a nine percent increase in mortgage activity compared to last year at this time. Having set a record last year, we appear to be on course to break it this year.

Based on the increasing number of loan commitments over the last 2 years, the department believes that the FHA multifamily mortgage insurance products, under current limits, meet the market tests and the market needs in the great majority of this country. In fact, we are seeing applications from high-cost metropolitan areas that have not participated in the program in years: Philadelphia, Baltimore, here in Washington and in Seattle.

However, there are areas where FHA insurance products are underutilized, such as San Francisco, Los Angeles, Boston and New York. Based on discussions with our field office personnel and industry groups, there appear to be a variety of reasons for the lack of multifamily production in these areas.

These reasons include: suitable sites not being readily available; available sites often having substantial environmental issues; available sites being located in areas that are not marketable, where there is no public transportation; and regulatory barriers adding years to processing times. These local market issues will remain regardless of the proposed legislation.

Traditionally, FHA mortgage insurance has served an important public purpose by insuring projects that are affordable to low-to moderate-income families. It is important to make sure that FHA continues to serve that purpose: that increases in the mortgage limits do not put FHA into higher-income housing at the expense of moderately priced rental properties.

That could be the case if the regulatory, environmental and other problems I mentioned are the main reasons why multifamily housing is not being built in some areas. It is worth noting that the national rental vacancy rate is 9.4 percent, the highest level in 40 years.

Given this, it is important that FHA exercise prudent underwriting and control of credit risk in an environment where there is a risk of oversupply of housing. At the same time, we certainly recognize that rental housing is more expensive in some markets than in others.

When we raised the mortgage limits, the department made a commitment to study the impact of the increase, with particular reference to high-cost areas. We are now conducting that study, looking at 18 months' experience with the new limits.

The study will be completed this fall and will provide the data to determine if further increases to the mortgage limits are warranted to serve high-cost markets. Until then, the department is not in the position to support this proposed legislation at this time.

Thank you, Mr. Chairman. Be happy to answer any questions you may have.

[The prepared statement of Hon John Weicher can be found on page 54 in the appendix.]

Chairman NEY. I want to thank the gentleman for his testimony. And if we will suspend for a minute and we will have our ranking member to make her opening statement.

Ms. WATERS. Thank you very much, Mr. Chairman, for holding this hearing. I just left Mr. Frank. But I would like to thank him and Congressman Gary Miller for offering H.R. 1985 and bringing this issue to the forefront.

We are all aware of the need to build affordable housing in our states, cities and respective districts.

Mr. Chairman, we have an affordable housing crisis in Los Angeles and in many other high-cost areas around the country. All of us know that the current FHA multifamily loan limits are inadequate for high-cost areas like Los Angeles and Boston.

The 25 percent increase enacted last year by Congress is just not enough. And we need to do more.

HUD data shows that Los Angeles is one of six cities in funding year 2002 that did not have any Section 221(d)(4) new construction projects. There was only one loan approved in California for multifamily housing under Section 221(d)(4) in funding year 2002 and one such loan in funding year 2003.

H.R. 1985 raises the minimum that HUD can increase the basic multifamily limits in high-cost areas from 210 percent to 270 percent. By increasing the loan limits for high-cost areas like Los Angeles, H.R. 1985 will make it far more likely that it is economically viable for developers to build affordable housing.

In Los Angeles, this will help our non-profit developers to add an additional tool in their neighborhood development kit.

Mr. Chairman, although the 25 percent increase in the basic loan limits was an important step towards making the FHA multifamily insurance programs work more effectively, Los Angeles as well as other high-cost areas like Boston, New York and Chicago continue to be unable to access FHA multifamily loans as a resource to help build affordable housing.

The Federal Housing Administration multifamily mortgage insurance program has been a critical source of financing for the affordable multifamily rental housing. The FHA Section 221(d)(4) and 221(d)(3) mortgage insurance is intended to provide financing for market rate housing that is affordable to low-and moderate-income households.

According to HUD data in funding year 2002, FHA insured 211 multifamily housing projects, totaling 39,413 rental units, with a dollar volume of $2.7 billion. Over 90 percent of these loans were insured through FHA's 221 program, which was used to finance loans by for-profit developers.

With an increase in loan limits, we will see more non-profit developers participating in the program. Clearly, passage of H.R. 1985 will provide a much-needed policy change to help stimulate the development of affordable housing.

And I commend you, sir, for scheduling this hearing and the office again. And I look forward to a markup later on today.

I yield back the balance of my time.

Chairman NEY. I thank the gentlelady, ranking member, for her statement.

A question I would have is: how do you currently determine, does the department determine, what is a high-cost metropolitan area?

Mr. WEICHER. We look at construction cost measures, which are available for individual areas on a national basis. There is an index put together, known by the name of the Boeckh Index. There is the RS Means index.

And we use our own program data. And we use the expertise of our economists and our staff in the field and get their professional judgments as well.

Chairman NEY. Do you think that the current statute is explicit enough, gives you enough guideline? Or does it need to be more explicit?

Mr. WEICHER. I do not believe it needs to be more explicit, Mr. Chairman. And I think the evidence for that is the dramatic increase in production, which we saw when we raised the mortgage limits and were able to put the program on a break-even basis.

I think that we have eliminated major constraints to the effective operation of the program. And I do not believe there is need for additional legislation on this point.

Chairman NEY. You also indicated the Department undertook a systematic review of the process to establish the level of mortgage insurance premium needed to require no appropriated credit subsidy. And do you want to describe what you considered in that review?

Mr. WEICHER. Yes, certainly, Mr. Chairman.

We were replacing a process which had been put into place back in 1990, when there was relatively little information to draw on, on the operation of the program. And that process simply looked at average default rates for all of the loans that we had made over past years, without much regard for what had been happening in the market and in the economy.

We replaced that with a model where we look at the economic performance—we relate defaults on projects to economic performance locally and nationally and where we also look at the tax laws under which the projects have been underwritten and developed. And of course, as you know, there were dramatic changes in the tax laws affecting multifamily housing a number of times in certainly our professional memory.

In 1981, there was a great liberalization, followed in 1986 by a contraction. And as a result, there were a lot of projects that were underwritten and built between 1981 and 1986 under the favorable tax treatment that had trouble supporting themselves when the tax treatment changed.

So we have built an analysis which took that into account, took into account the present tax regime. And on that basis, we concluded that we could indeed lower the premium from the 80 basis points that had been established under the previous system to 57 basis points and further this year updating it to 50 basis points coming in October.

We have a fairly sophisticated technique. And we are refining it from year to year.

Chairman NEY. Appreciate the answer.

The last question I have is: in the past, HUD had to manage a large inventory of multifamily. And it was at considerable expense of the taxpayers' dollars, obviously.

Do you want to comment or give us some type of insight of what is the status of that inventory now? And how have you tried to handle coming to terms with some of the ways to affect costs?

Mr. WEICHER. I am happy to do that, Mr. Chairman.

When we came into office, we had—the department had—an inventory of about 100 multifamily projects where we either owned the property or we were the mortgagee in possession. We have had an active program of selling those projects or giving those projects to local governments under the terms of the statute.

And we have been able to reduce our inventory from 100 projects down to 37. Seventeen of them are a special situation in the Boston area where there was a long-term commitment to rehabilitate and, indeed, rebuild projects to make them applicable as cooperative housing for the residents. And those are proceeding on a different track.

Apart from them, we have only 20 projects nationwide where we are still the owner or the mortgagee in possession. And we are bringing those to market as expeditiously as we can.

Chairman NEY. I want to thank you.

The gentlelady, for questions?

Ms. WATERS. Mr. Chairman, as I understand it, before I came in, you indicated that you felt that the 25 percent increase was adequate. And I am sorry to put you back through it again, but I do not understand why there is not some recognition of the fact that the housing market in places like Los Angeles has just gone off the scale.

I think when we had the hearing out in Los Angeles just a few weeks ago, it was indicated that by both consumers and the apartment managers, that the average two-bedroom apartment is renting for somewhere between $1,100 and $1,300. These apartment buildings used to be $500 and $600 a month. And now they are just out of the reach of the average working family.

So we need to produce more housing because we truly have a housing crisis. And it is truly an onerous market for rental housing.

Why does this not drive you to want to join with us in the production of more rental units so that we can drive down the price?

Mr. WEICHER. What I said in my statement, Congresswoman Waters, was that raising the mortgage limits and the other changes which we put into place, eliminating the need for credit subsidy and creating a more accelerated processing system, all of them combined enable us to double the volume of business that we were doing in our basic Section 221(d)(4) program and to set a record for the volume of business we were doing in all of our programs combined, a record that we anticipate we will break this year.

Those are national figures. I also said that we are doing business in some market areas where we have not done business in a number of years, but that we also recognize that there are areas where our programs are not being utilized, where our programs are being underutilized.

And I listed specifically Los Angeles, San Francisco, Boston and New York. And I repeated the commitment which we made at the time that we put the new premium calculation process in place, that we would look at how the changes are working out and do a study of our outcomes and be prepared to make recommendations to you when the study is completed. And the study is going to be completed this fall.

Ms. WATERS. Thank you very much, Mr. Chairman.

Chairman NEY. Thank you.

Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman.

You just indicated again, as you did in your opening statement, that there are record levels of FHA multifamily mortgage activity over the last few years. And as you just said, you hope to break the record again this year.

To what do you attribute that high level of activity and the growth in the level of activity?

Mr. WEICHER. Well, I think there are several factors, Congressman Green. One is—and this, I think, is very important—we have gotten our programs to the point where we do not need to ask you for an appropriation every year to cover the losses on the programs.

There are only four remaining programs out of the 19 that we have, which require credit subsidy. And as a result, the credit subsidy appropriation that we have requested and that you all have approved is only $10 million. And it is enough for those four programs.

What this means is that the industry can come to us, knows that it can come to us at any time, with an application. And the application can be considered on its merits for insurance, without regard to whether we have run into a credit subsidy appropriation limit.

Secondly, we have the multifamily accelerated processing program. We are moving projects through the pipeline much more quickly and enabling developers to get in the ground much more quickly than they have been able to under our traditional processing system.

And certainly, raising the mortgage limits, as the Secretary requested and as you all approved, is an important factor. There had not been an increase since 1992. And that was 10 years during which costs went up—not a large amount from year to year, but they did go up from year to year. And it became harder and harder to build under the FHA mortgage limits.

And we have caught up with the inflation over that period. And moving forward with the inflation adjustments that are now statutory, we will be able to keep pace with inflation, year by year.

All of those factors put together, I think, contributed to a strong performance by our programs and a performance that we believe we can continue to repeat.

Mr. GREEN. Interesting.

I think FHA is poorly understood by many people in the public. How would you describe the market that FHA serves for these programs?

Mr. WEICHER. Basically, we are serving low-to moderate-income families in our programs. Most of our projects are designed to serve people who are in the lower half of the local income distribution. And they do serve those people.

We are not in the luxury business. We are not trying to provide housing for people at the high end of the economic spectrum.

We leave that to the private market. And the private market seems to be filling that demand adequately.

We are trying to serve people who are able to make modest rental payments out of their incomes, who do not require subsidy to afford decent housing, but do benefit from the lower cost of loans that results from FHA's insurance.

Mr. GREEN. In your portion of the market, do you see private sector initiatives that are serving that same market?

Mr. WEICHER. There is some overlap. We do not draw precise boundaries between the loans that we make and the loans that the private sector makes.

And indeed, there is nothing in the statute to stop a private developer from building to serve the FHA market. And occasionally, some projects are built that way.

But because we have the full faith and credit of the government of the United States behind us, lenders are willing to make loans at lower interest rates for our projects. And as a result, our projects are atypically a little bit cheaper.

Mr. GREEN. Well, maybe just outside obviously what you work on, your authority, but are there things that we can do to increase private sector initiatives to this market, to get the private sector more involved?

Mr. WEICHER. I think the private developers face—and so do our FHA projects—they do have to confront the costs of land and the cost of labor. And those are the basic costs that they are confronted with.

We have, in many markets, serious processing problems, serious delays in being able to get the local approvals for a project, particularly on the multifamily side. The secretary has established a program to look at the regulatory barriers to affordable housing, headed by a gentleman by the name of Bryant Applegate, who has come from Florida with the Secretary. And that activity is to see if we can identify barriers—federal barriers, as well as state and local barriers—which can be dealt with to bring down the cost of providing affordable rental housing.

Mr. GREEN. Okay. Thank you. Thank you, Mr. Chairman.

Chairman NEY. Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman.

Mr. Weicher, I welcome you and confess a little confusion about your testimony. But it is not the first time I have had confusion about HUD's testimony on a number of issues. So I guess I should not be surprised.

Your statement seems to, in one respect, revise history a little bit, making it sound like Secretary Martinez was and HUD was the major advocate for the 25 percent increase in the statutory limit back in 2002, when in fact my recollection is that Congress had been calling for that increase and Members of Congress had been calling for that increase throughout the period from 1992 to 2002. And finally, HUD got to the point where it could not resist the change anymore and got on the same page and made the recommendation.

Your testimony says that by doing that, you were able to see some activity in the FHA program in some high-cost areas. Philadelphia, Baltimore, Washington and Seattle specifically, you mention on page three of your testimony.

But you acknowledge that still has not reached the high-cost areas that this bill is designed to get to. And so we are at this again.

And if we wait until HUD finishes its study in the fall of this year, that means, as I calculate it, it would be next year before HUD could have a recommendation about that. I guess 10 years from now, HUD would be back here saying, "We took the lead in recommending another change and increase," if you did, in fact, recommend it at that time.

The problem is that that means from 1992 up to whenever we do this increase, cities like Los Angeles and Chicago and Boston and Oakland the really high-cost areas are simply not using the program. And it is not as if you are cutting off high-income people or people who are even above the median income level from the use of the FHA program. In those communities, nobody is using the program, either for lower-income people, people who fall below the income limit, or people who might be able to access the market.

So the question I have is: if you are not supportive of this increase, if you are not supportive of this bill at this present, what would you have cities like San Francisco, Los Angeles, Boston, New York, Oakland do in the interim to help produce housing in those high-cost areas? I mean, because they have not had the benefit of this program since actually before 1992, if you go back and look at it historically.

So how long would you have them wait? And if you would not have them wait, what would you do in the interim to spur housing development in those high-cost areas where even your testimony concedes the adjustment that we made in 2002 has not had any impact at all?

What would you do in the interim?

Mr. WEICHER. Let me start by going back to your first point about the Secretary's call for an increase in the multifamily mortgage loan limits. The secretary made that call, urged that on Congress, within a month after assuming office back in 2001.

There were people undoubtedly favoring an increase in the loan limits before that. I do not really know whether HUD was favoring it between 1993 and 2001.

But the Secretary's statement in February of 2001 created, I think, a basis for a bipartisan agreement on an increase in the loan limits, which Congress enacted in fiscal year 2002. So I was not in the slightest trying to rewrite history. The history includes an explicit call by the new HUD Secretary, Secretary Martinez, for that increase, for what was the first increase in 10 years.

With respect to what we are doing now, we are studying the impact of the increases that we have had and the other changes that we have made in the program on our ability to serve high-cost areas.

Chairman NEY. Time has expired.

Mr. WEICHER. Excuse me, if I may just finish for a moment. When we will complete that study, I certainly do not anticipate that we will take 10 years before a policy recommendation will be made. We would expect to make a recommendation very quickly thereafter.

Mr. WATT. Thank you.

Can he answer the question, Mr. Chairman? What are we going to do in the interim? What are those cities going to do in the interim?

Mr. WEICHER. I think that the cities which are high-cost cities at this point, if they cannot make the program work under their current policies and under current FHA limits, they may be able to modify their policies while we complete the process. But I think it is not going to be very long before we are going to know the outcome and have a recommendation.

Chairman NEY. Any additional detail for the answer also can be placed in the record. Thank you.

Mr. Renzi?

Mr. RENZI. Thank you, Mr. Chairman.

Sir, appreciate your testimony today. And in looking over your statement, when you talk about the vacancy rate being 9.4 percent on a national basis, when you move into those high-cost areas and we look at the low-cost rental in those high-cost areas, I imagine the vacancy rate has to be almost full.

Mr. WEICHER. Well, vacancy—oh, I am sorry.

Mr. RENZI. Go ahead, please.

Mr. WEICHER. The vacancy rates, that is a national vacancy rate. And the vacancy rates certainly vary from one part of the country to another.

And in the high-cost areas that members are concerned with, it is certainly true that vacancy rates are relatively low. The lowest vacancy rates come in the Northeast, in New England and in New York, and come on the West Coast, in the California cities.

Those are markets which have low vacancy rates. And at the same time, nobody is building much in those areas, as we hear. And that suggests that there is a problem in those markets beyond simply the availability of mortgage money.

Mr. RENZI. When you look at lending to affordable multifamily units and you worry in your statement in moving FHA monies into higher-income housing, you have limits in place and restrictions in place, requirements in place already that, if I was a developer, build a multifamily housing unit, I would have to rent those out at a certain rental rate. And a certain block of my units must go to low-income or moderate-income recipients?

Mr. WEICHER. Not on our basic Section 221(d)(4) programs, our basic unsubsidized rental insurance programs. The limits are dollar limits on the mortgage, which implies a limit on the rents or the rent that is needed to make the project work. We do not impose income limits on the residents of those projects.

If someone who is very well-to-do wants, for some reason, to live in an FHA project, that is between that individual, that family and the owner of the project. It is not a limitation that we impose in our programs.

Mr. RENZI. I do not know that that really happens in the real world. But, okay.

Well, listen, thank you for your testimony.

Chairman NEY. Mr. Clay?

Mr. CLAY. Thank you, Mr. Chairman.

Mr. Weicher, we have not had adequate increases to the FHA multifamily mortgage limits sufficient to offset the impact of the economic growth of the past decade. This growth has affected not only low-income housing, but middle-income housing as well, to the tune of almost five million working families had critical housing needs in 2001.

My district lowers that description. And with the shipping of jobs overseas, the cutback on hourly wages, if current moves are successful and with the push for the elimination of overtime and smaller paychecks, what do you see as the impact of these issues on housing affordability?

Mr. WEICHER. Well, Mr. Clay, what we have in the housing market, as I was saying in response to Mr. Renzi a moment ago, we do have a high national vacancy rate and a high vacancy rate in much of the country, apart from the Northeast and California on the West Coast. We also have the highest home ownership rate in our history nationally.

Despite whatever economic problems individual families are having and whatever problems their employers are having, people are able to buy homes. They are buying homes in record numbers.

And at the same time, we are providing assistance through the FHA program. We are providing mortgage money that enables builders in much of the country, nearly all of the country, to build affordable rental housing in unprecedented quantity.

Mr. CLAY. Now are these vacancy rates, do these rates apply to low-income housing or middle-income housing? Which is it?

Mr. WEICHER. They are about the same across the rent spectrum.

Mr. CLAY. And you cite the boom in home ownership. Now you know that Hispanics and African-Americans lag behind in that home ownership rate. Tell me, what are some of your solutions to helping those two segments of the population?

Mr. WEICHER. Well, certainly we are very concerned about differences in home ownership rates between the white majority of the population, where it runs about 75 percent, and the African-American and Hispanic communities, where it runs about 50 percent.

The President established a year ago a commitment to create 5.5 million more minority homeowners. And we at HUD have been certainly working vigorously to contribute to that goal, as have many of the professional organizations in the industry and other entities.

Last year, FHA insured 260,000 mortgages for first-time minority home buyers. This fiscal year, we are running at about the same rate so far.

That is almost half of the 5.5 million, on an annual basis, that the President called for. Other programs, the U.S. Department of Agriculture's Rural Housing Service and the Veterans Administration's Home Loan Guarantee Program, are also participating in this effort. We are the agencies which do serve lower-and moderate-income families as they become homebuyers, as well as serving them when they are renters.

Mr. CLAY. Final question, let me ask you, we have a supply of low-cost housing that I feel is getting smaller and smaller, and an increase in the number of low-income households. If having a job does not guarantee affordable housing, what needs to be done to stem the tide of this critical affordable housing shortage? How can we stem that tide?

Mr. WEICHER. Well, I think it is important to look at supply constraints on the availability of rental housing. We operate in an environment where the many localities have erected barriers to the production of rental housing, particularly the production of low-and moderate-income rental housing.

We have the "not in my backyard" syndrome, the NIMBY syndrome, which is a problem in much of the country. And it is important, I think, that the federal government, state governments and local governments work together to try to address barriers which limit the availability of rental housing for lower-income families.

Mr. CLAY. Thank you very much for your response. Thank you.

Chairman NEY. Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

Mr. Weicher, it is good to have you here today. And very rarely do I ever take opposition to testimony from HUD, because I usually get around.

The problem is I have been a developer for 30 years. And most of my friends, close friends, are in that industry.

And you said you have a problem with legislative increases. Then you come back and say you want governments to work together.

There is no private sector alternative. And the thing I like about this is the FHA program pays for itself. It even makes money.

So we are not giving grants. We are not doing something that is going to lose money for anybody. And it does not take away from low-cost areas, what we are proposing here. And it does not hurt one person's district, period.

So there is no harm, no foul on what we are doing out here. But I am going to ask you some questions. And I am going to speak for Ms. Velasquez, Mr. Frank, Mrs. Waters, Mrs. Lee and myself because this concerns all of us.

You said that you are doubling the volume of loans. That sounds good.

But according to HUD data, FHA multifamily loans for new construction or substantial rehabilitation in Massachusetts in fiscal year 2002 and 2003, only one loan was approved. So we are going to give them two.

In California, in 2002 and 2003, only one loan was approved. We are going to give them two.

In New York, no loans. So two times zero is still zero.

And in Boston, the same situation. So I am not trying to argue with you. But you list the reasons here why they are underutilized. And they have nothing to do with what we are doing here today.

One is suitable sites are not readily available. They are difficult. But there are suitable sites out there.

The problem is by the time you acquire the sites, based on the limits today they are able to borrow, they cannot get a loan because it cannot be done. I will give you an example of a developer in Boston who I received a letter from.

Two available sites in Boston have substantial environmental issues that render them cost-prohibitive. We just passed a bill this year—and I correct Mrs. Waters—that included petroleum so we can go out and clean these sites up in communities that are needed so we can go build affordable housing. We are taking care of that one ourselves.

That might be true. But we are going to deal with that.

And many of those sites are located in areas that are not suitable marketplaces, no public transportation. Again, we are dealing with that in some areas. In others, that does not apply.

And regulatory barriers, if you want to drive a nail into anything today, to build anything, there are regulatory barriers. It does not matter what you want to build, NIMBY applies to single family detached, multifamily, apartments.

It does not matter. Nobody wants it anywhere if it is near where they live.

The problem is that in areas that do need rental housing, we are not building it. California is an example. The multifamily, as far as for sale, is almost non-existent because of litigation, as you know.

Most developers will not build condos or townhomes because they know they are going to get sued, without a doubt. A friend of mine, Lewis Holmes, owns Lewis Operating Company, now will only build rental units and commercial shopping centers because of litigation.

They are a fine builder. They probably own 15 to 20 percent of KB homes out there. But they are stockholders and not principals.

But all they are building in rental houses, they cannot, at all, get an FHA loan. And there is a gentleman from Mr. Frank's district in Boston that he says he wants to build a 180-unit garden style walkup apartment in Burlington. Twenty percent of the units will be affordable to seniors and low incomes up to 80 percent of the area median income.

The units range from 700 square foot one-bedroom units to a 1,200 square foot two-bedroom unit. They have a clubhouse and a pool. So it is a nice unit.

They are quality affordable housing. The problem is the total development costs are $176,000 per unit.

Now the reason they are that low is because he has had the land for quite a few years. So the cost of land is only $15,000 per unit. But the current market value is $50,000 per unit.

His hard costs are $113,000 per unit, sticks and bricks, plus $3,000 a unit in impact fees. And permits run $10,000.

Based on a case-by-case exception to get him up to 240 percent, which we all understand that going by a case-by-case protracts the process, increases the cost because it is going to take longer to get a HUD case-by-case approved. This puts him at $124,608 per unit.

He cannot do it. What we are proposing puts him a little over $140,000 per unit, which he can do.

This is discretionary on the part of HUD. What I do not understand is there is no alternative. So for us, giving HUD this authority to increase it to this amount does nothing but benefit all of our areas, does not in any way hurt HUD, impact HUD, cost HUD any money.

In fact, if you do have a foreclosure in California or Boston or New York, you are going to have more buyers standing in line to buy that from you, as you know, than you can deal with. So the high-cost areas are what we are trying to deal with.

We are not talking about areas that do not need high-cost loans. We are talking about the areas that cannot build because they do need a high-cost loan.

That is what we are trying to deal with, giving HUD the discretionary authority to do that, without having to go through a protracted process just to get you up to 240. We need to go to 270.

The costs are there. The demand is there.

Boston, San Francisco, Oakland, Orange County, Los Angeles, the Inland Empire, the vacancy rates are three percent, which they are 100 percent occupied, sir, because you know three percent means three percent or under restoration while we are trying to put them back on the market.

So you have zero available product. You have States where they are building very little attached product: townhomes, condos.

You made a statement that we have the highest home ownership in history. And I applaud that. And being a developer, I think that is great.

But that is not the people we are trying to help here. We are trying to help people, not giving them a grant, but raising the loan amount so these units can be built to help people who need those units. Not subsidies, we are not talking about any of that.

The people who can afford a home are buying homes. Those are not the people who will want to rent these units we are trying to make sure they build out there.

And I really think I am trying to help HUD. I am a developer. I am a Republican. Martinez is a friend of mine. I think this is good.

And I am not impugning you. With all respect, your four reasons here just do not, in reality, hold water.

And Mr. Chairman, you have been really nice in giving me some extra time. I was going to ask Ms. Waters, but she used hers up.

But there are such issues here that we need to deal with. And we are trying to deal with them. And we would like your help.

I yield back the time I do not have.

Chairman NEY. Well, I thank the gentleman. And I want to thank Mr. Weicher and the members. And that concludes panel one. Thank you.

We will move on to panel two.

I want to welcome panel two. I want to introduce first Howard Cohen is the President of the Beacon Companies Limited Partnership, a Boston-based residential development company. Beacon has been in business for 60 years and owns and manages 8,500 residential units, primarily in the New England, Pennsylvania and Virginia areas.

Linda Cheatham is the Senior Vice President of Berkshire Mortgage Finance. She has over 30 years of experience with FHA multifamily insurance programs. She is testifying today on behalf of the Mortgage Bankers Association of America, a national association representing the real estate finance industry.

Casimir Kolaski is the President of Kolaski Housing Advisors, Incorporated, a company that provides consulting services focused on the development of affordable rental housing. Before entering the private sector, Mr. Kolaski had a long career at HUD, having served as the Director of Housing in HUD's Boston office and later in its Rhode Island office.

And our last witness is Gary Ruping, is the founder and owner of Ruping Builders in Billerica, Massachusetts. Ruping Builders has been involved in the development of a range of housing, including affordable housing, since 1985. Mr. Ruping served on the Massachusetts Special Commission on the Barriers to Housing Development.

I want to thank all the witnesses. And we will begin with Mr. Ruping.

STATEMENT OF GARY H. RUPING, PRESIDENT, RUPING BUILDERS, INC., BILLERICA, MA, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOMEBUILDERS

Mr. RUPING. Good morning, Mr. Chairman.

Good morning, Chairman Ney, Ranking Member Waters and subcommittee members. I appreciate the invitation to represent the 211,000 members of the National Association of Home Builders and myself to testify on H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act.

My name is Gary Ruping. I am the founder and owner of Ruping Builders, in Billerica, Massachusetts, part of the greater Boston area.

Formed in 1985, my company has been involved in the development of a wide range of housing, including quality apartment homes, condominium communities and affordable housing. During former Governor Cellucci's term, I served as Co-chairman of the Special Commission on the Barriers to Housing Development.

As the subcommittee is aware, important reforms were made to the FHA multifamily insurance program in the 107th Congress, such as increasing the limits by 25 percent and indexing programs to inflation beginning in 2004. However, despite these significant improvements, there are pockets in this country—high-cost, urban areas—where the FHA multifamily programs, particularly the 221(d)(4), are not really working.

NAHB wholeheartedly endorses H.R. 1985, which would permit, but not require, the HUD Secretary to increase the multifamily mortgage insurance loan limits in high-cost areas from 210 to 270 percent. According to data published by HUD, there are 16 cities that are currently at the statutory maximum of 210 percent.

Another five cities are just below 210 percent or between 205 and 209 percent. In 2002, there were 13 cities at the maximum limit. In other words, the problem is growing.

Available HUD data for 2002 and part of this year indicates that in most of the high-cost areas, the 221(d)(4) program cannot work. For example, in fiscal year 2002, there were no initial endorsements in the city of Boston, none in Providence, New York, Philadelphia, Chicago, Los Angeles, San Francisco and Seattle.

This year, there have been no initial endorsements for Boston, Providence, New York, Greensboro, Los Angeles, San Francisco and Seattle. While H.R. 1985 permits the Secretary to go up to 270 percent, it eliminates the current provision to approve mortgage loan limits by up to 240 percent on a case-by-case basis.

We believe that this is sound policy because of the additional administrative and paperwork burdens attendant to the case-by-case approval process. From a developer's perspective, I will have already expended a considerable amount of money to apply for the loan before I know if the loan is then possible.

The effectiveness of the 221(d)(4) program would be greatly enhanced if builders in high-cost areas were confident they could proceed with an FHA-insured loan without the additional cost, time and difficulty of applying for a case-by-case exemption, exception. When the statutory limits are close or at the maximum, builders will have little incentive to use an FHA insurance program.

Congressman Miller clearly outlined the project that I have in Burlington, Massachusetts. He is correct. It is a 180-unit, garden style walkup apartment project.

Twenty percent of the units will be affordable to seniors with incomes up to 80 percent of the area median. The rest will be at market rates.

The units range in size from 700 square feet for a one bedroom to 1,200 square feet for a two-bedroom unit. The development will include a clubhouse and modest outdoor pool, which are typical amenities offered in this marketplace.

This development will offer quality, affordable housing. It is not intended to serve the luxury, high-end market.

I decided to pursue a 221(d)(4) insured loan in part because the program offers terms related to the debt service coverage ratio, interest rate and loan period that are needed to make the project financially feasible. In addition, the construction loan is automatically converted to a permanent loan.

Conventional loan terms are not as favorable. And I would have to obtain both a construction loan with recourse and a permanent loan.

With interest rates being comparable right now, the Section 221(d)(4) program seemed the way to go. However, I may not actually be able to obtain the FHA-insured loan.

My development costs are $176,000 per unit, which exceeds the high-cost limits. This figure is actually somewhat low because I bought the land many years ago at a cost of $15,000 per unit. The land is currently worth $50,000 a unit.

My hard construction costs are $113,000 per unit. Impact fees are $3,000 per unit. And permit costs run $10,000 per unit.

The balance of the total development costs include architecture, engineering and legal fees, environmental testing and builders overhead. In addition, labor costs in the Boston area are very high, which contributes to the high construction cost.

The current statutory mortgage loan limit for a two-bedroom unit in a non-elevator structure is $51,920. The maximum permitted limit, using a case-by-case exception at 240 percent HCP——

Chairman NEY. Time has expired.

Mr. RUPING. Would you like me——

Chairman NEY. But I would note, without objection, the rest of your testimony can be placed in the record.

Mr. RUPING. Thank you, Mr. Chairman.

[The prepared statement of Gary H. Ruping can be found on page 48 in the appendix.]

Chairman NEY. The reason I want to continue to hold to the time today, we are going to have some votes and I want to make sure we hear all of your testimony.

Mr. Kolaski?

STATEMENT OF CASIMIR KOLASKI, PRESIDENT, KOLASKI HOUSING ADVISORS, INC., PROVIDENCE, RI

Mr. KOLASKI. Thank you.

Good morning, Chairman Ney, Ranking Member Waters and members of the subcommittee. My name is Casimir Kolaski. And I am the President of Kolaski Housing Advisors. My company provides consulting services on the acquisition, development, financing and management of affordable rental housing.

Prior to starting my own company, I spent over 25 years working for the U.S. Department of Housing and Urban Development, where I served as Director of Housing in HUD's Boston office, as well as manager of HUD's Rhode Island office.

Additionally, I served as special assistant to the Assistant Secretary for Housing/FHA commissioner. I appreciate the opportunity to be here today to comment on H.R. 1985, the FHA multifamily programs and how they are working in high-cost urban areas.

My company works with clients who are developers of affordable rental housing for families and seniors, as well as for clients developing nursing care and assisted living facilities. We make every effort to use HUD's programs, although frequently we must tap additional sources of financing, such as the low-income housing tax credit, state and city housing trust funds and the Federal Home Loan Bank's Affordable Housing Program.

Complicating our efforts are the extraordinarily high land and labor costs found in cities such as Providence and Boston, which make use of some programs, particularly FHA insurance, difficult or impossible.

The 221(d)(4) mortgage insurance program is intended to provide financing for market-rate housing that is affordable to moderate- and middle-income households. The program is unique in that it offers a variety of terms to developers that are not available through conventional financing and are critical to the feasibility of many affordable housing projects.

Despite enactment of a 25 percent increase in the mortgage limits for FHA multifamily insurance programs, the limits are still not sufficient to meet the needs in high-cost urban markets, such as Providence and Boston.

High land and labor costs are typical problems in large cities and in metropolitan areas experiencing growth. Other costs, such as impact fees, permitting fees and real estate taxes, also tend to be significantly higher.

The zoning process is complex and time-consuming, and the NIMBY attitude continues to impact the ability of developers to build rental housing.

In Providence and Boston, our high-cost percentage is at the maximum of 210 percent, about $109,000 for a two-bedroom unit in a non-elevator building. On a project-by-project basis, HUD may approve an increase up to 140 percent, or about $124,600 for the same unit.

I am working with a client who is building a new addition to an existing Section 202 elderly housing apartment in Boston. There are no land costs and no construction costs for community space or other amenities because they are already provided in the existing building.

The development costs for this addition are $133,000 per unit. As a result, this project could not be financed with an FHA-insured loan.

The financing for this project will come from a capital grant through the Section 202 program, as well money from Massachusetts Affordable Housing Trust and the city of Boston's neighborhood housing trust funds, which are substantial subsides not easily available to projects financed with FHA-insured loans.

During my service with HUD in Boston, I worked with MassHousing on the disposition of 2,000 HUD-foreclosed units in the Multifamily Demonstration Disposition Program. Of the 11 projects in the program, three involved the total demolition and new construction of the projects.

The per unit total development cost of Academy Homes II, the last of the three new construction projects, which is currently nearing completion, is $233,000 per unit. Of that amount, about $21,000 is attributed to demolition, asbestos removal and other environment issues, leaving a development cost of $212,000 per unit.

That figure does not include land costs. And there were no impact fees to pay. All of these projects were competitively bid.

Clearly, these projects could not be financed with a Section 221(d)(4) insured loan. In fact, MassHousing calculates that the average development cost for new family rental housing in greater Boston for last year was $195,045.

In summary, I urge the Housing Subcommittee to support H.R. 1985, introduced by Representatives Miller and Frank. We must remember the 25 percent increase in the base loan limits was long overdue, as the limits had not been raised for a decade.

This bill is an important step towards making the FHA multifamily insurance programs work more effectively in high-cost areas, which continue to suffer from lack of access to the program. With unemployment rising and wages not keeping pace with rising rents, it is especially important that the program be available to provide much-needed affordable housing to our cities' working families and individuals.

There are few, and often no, alternatives in the market available to them. These are the people who teach our children, protect the citizens, serve you in restaurants and retail establishments, take care of our office buildings, provide public transportation to residents and visitors and keep our streets and parks clean. We must find a way to provide them with decent qualify affordable housing.

Chairman NEY. Time has expired.

Mr. KOLASKI. Thank you.

[The prepared statement of Casimir Kolaski can be found on page 44 in the appendix.]

Chairman NEY. I want to thank you.

Ms. Cheatham?

STATEMENT OF LINDA D. CHEATHAM, SENIOR VICE PRESIDENT, BERKSHIRE MORTGAGE FINANCE ON BEHALF OF THE MORTGAGE BANKERS' ASSOCIATION OF AMERICA, WASHINGTON, DC

Ms. CHEATHAM. Thank you.

Good morning, Mr. Chairman and members of the subcommittee. My name is Linda Cheatham. And I am the Senior Vice President for FHA lending at Berkshire Mortgage Finance. I am appearing on behalf of the Mortgage Bankers Association of America, the MBA.

MBA is grateful for the opportunity to present its views to the Housing and Community Opportunity Subcommittee today on the FHA Multifamily Loan Limit Adjustment Act of 2003. And we applaud Representative Gary Miller and Representative Barney

Frank for introducing a bill to increase the nation's affordable multifamily housing stock.

I have over 30 years of experience with FHA mortgage insurance programs. Currently, I head FHA production at Berkshire Mortgage Finance, a multifamily mortgage banking company headquartered in Boston with offices around the country, including Irvine, Santa Monica and Walnut Creek, California.

Our company has originated over $190 million in FHA-insured multifamily loans so far this year and over $1 billion in our servicing portfolio.

Before joining Berkshire, I was director of the Office of Multifamily Development at HUD headquarters and with HUD for over 25 years, working in FHA multifamily programs.

MBA strongly supports the Federal Housing Administration's multifamily mortgage insurance programs. FHA multifamily mortgage insurance has operated successfully for over 65 years, working with private sector partners to expand the supply of rental housing.

Over the past six decades, this private/public partnership has leveraged more than $100 billion of private sector investments to provide rental housing for more than four million families and the elderly throughout the country. The Center for Housing Policy reported in a recent study that more than 4.8 million working families had a critical housing need in 2001. And many of these are moderate-income households, where a full-time job simply does not provide sufficient income to afford the fair market rent in that community.

In many communities in this country, the economics simply will not allow developers and builders to construct units where the rents will be affordable to many working families. FHA's multifamily mortgage insurance programs are one of the most effective tools to provide affordable multifamily apartments to low-and middle-income families.

H.R. 1985 is a major step in allowing the FHA programs to help finance the development of affordable rental housing. MBA applauds Congress and the administration for taking steps over the past 2 years to update the FHA multifamily loan limits.

Unfortunately, the current maximum FHA multifamily mortgage limits are inadequate in some areas and continue to constrain new construction and rehabilitation in many selected, high-cost areas, where construction costs are significantly higher than in the rest of the country.

H.R. 1985 establishes an additional mechanism for addressing the need for new construction or substantial rehabilitation in extremely high-cost areas of the country by giving the Secretary of HUD the authority to increase the maximum high-cost percentage in extremely high-cost areas to 170 percent.

High costs in these areas can be attributed to a number of factors, including location—for example, inner-city sites can be expensive to develop—or scattered sites or environmental concerns, to name a few. This proposed increase for high-cost areas is crucial, as I can attest from my own personal experiences with worthy projects that could not be financed, due to the confines imposed by the mortgage limits.

Berkshire has examined several new construction projects with affordable components in the Boston area, for example, that have been infeasible because the mortgage that resulted from the statutory limits required substantial cash investment far above the borrower's ability to generate. Currently, we are looking at a mixed income project to be located in a sub-market in the northern greater Boston area.

The vacancy rate for affordable housing in that area stands at 1.8 percent and for higher income housing at 5.4 percent. The project has all of its local approvals and is proposed for two phases.

However, our preliminary analysis shows that for the two phases, the borrower would have to come up with more than $10 million in equity because the stat limits control the mortgage amount. The vacancy rates clearly indicate a need for the proposed housing. But it cannot be built using FHA mortgage insurance and will not likely go forward absent the increase that MBA is supporting.

Mr. Chairman and members of the committee, it is critical to institute this final step to update the FHA multifamily loan programs in order for the programs to reach their full potential and serve the many needy families in America. MBA stands ready to work with you to advance this important legislation.

Thank you.

[The prepared statement of Linda D. Cheatham can be found on page 36 in the appendix.]

Chairman NEY. I thank the witness for her testimony.

And the last witness, thank you.

STATEMENT OF HOWARD EARL COHEN, PRESIDENT, THE BEACON COMPANIES, LLP, BOSTON, MA

Mr. COHEN. My name is Howard Cohen. I am President of the Beacon Companies, Limited Partnership, a Boston-based development company.

Beacon has been in the development business for over 60 years. We develop, own and manage both market rate and affordable developments. We currently own and manage 8,500 residential units, primarily in New England, Pennsylvania and Virginia.

Our portfolio consists of developments financed through FHA, as well as Fannie Mae, Freddie Mac and various HFAs and conventional financing sources. I am here today speaking on behalf of Citizens Housing and Planning Association of Greater Boston, a broad-based housing advocacy group.

I am a resident of Newton, Massachusetts. And I also have the honor of being represented in Congress by Congressman Frank.

Over the last 8 years, we have been unable to access FHA for any of our developments in the Boston and Providence area, due to the constraints imposed by the statutory mortgage limits. I first became intensely aware of this issue in 2000 when we tried to develop a residential high-rise in Providence Capital Center.

Capital Center is a major effort by Providence to redevelop the downtown area. The city believed that a residential component was highly desirable.

In my experiences, that would have been a perfect fit for FHA insurance. However, the statutory mortgage limits prohibited the use of FHA.

Shortly thereafter, I was asked to serve on a commission established by Boston's Mayor Menino on housing finance. In reviewing the history of housing finance in the city, it quickly became apparent to the commission that a substantial proportion of the city's most successful and innovative residential developments had been FHA assisted, but that all these developments were at least 10 years old.

Again, as we probed the issue, it became apparent that due to the statutory mortgage limits, FHA was no longer a viable housing finance tool in the Boston area, although it had played a very important historic role. One of the commission's primary recommendations for federal action was to encourage the adoption of legislation such as H.R. 1985.

As the commission was meeting, we learned about the admirable efforts of the Bush Administration and this committee to support the first increase in the FHA mortgage limits in a decade. However, the 25 percent increase in statutory limits did not solve the problem in our high-cost area.

It was at this time, through the auspices of the city of Boston and the Massachusetts Housing Advocacy Organization that we began to discuss with our congressman the need for additional legislation.

Let me provide an example from our own portfolio. We are currently completing construction of a 200-unit development on Boston's South Shore and anticipate commencing construction of another 150-unit development in the same area.

In both cases, we have mixed income developments. Pursuant to the state's zoning law, 20 percent of the units must be set aside for occupants with incomes below 50 percent of median income.

These are exactly the type of developments where FHA's experience and mission would make it a perfect lender. However, the per-unit cost of these developments, including land, is in the range of $150,000 per unit. Direct construction costs are in the range of $90 per square foot.

This is the general range of the cost of new suburban low-rise, multifamily developments in the Boston and Rhode Island area. For urban high-rise development, these numbers would have to be essentially doubled.

At the current statutory limits, the maximum FHA loan would be much less than could be obtained with conventional financing. Were H.R. 1985 in effect, with loan limits at 270 percent of the statutory base, FHA insurance would be a prime candidate for financing.

It is beyond our level of expertise to justify or even explain why there is such a vast divergence in the cost of creating a housing unit between various parts of the country. As previous speakers have noted, older, highly developed regions such as ours, we face steep land costs and high site development costs, with many of our sites requiring environmental remediation.

Because of our land constraints and slower rate of growth, we cannot accomplish some of the economies of scales that I see in other parts of the country. The in-fill nature of much of our development requires particular attention to design and neighborhood compatibility.

There are some obvious artificial cost burdens imposed by unnecessary code and permitting requirements that our current governor, Governor Romney's administration is working hard to correct. The cost of housing in Massachusetts has become a severe impediment to our economic development.

Efforts to redress these costs and to encourage more residential development are a priority for both our governor and the Massachusetts legislature. The passage of H.R. 1985 would revive FHA as a viable tool in our region, which contribute to reduction in our costs of financing and thus, the overall cost of producing housing.

Enactment of H.R. 1985 would be a significant federal contribution to this effort at no additional cost to the federal government. Thank you.

[The prepared statement of Howard Earl Cohen can be found on page 41 in the appendix.]

Chairman NEY. I want to thank the panel for their testimony. I do have a letter from Steven Fifield from the Fifield Company of Chicago, Illinois for the record, without objection.

[The following information can be found on page 58 in the appendix.]

And I would also note that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

Do appreciate your testimony. It does count, I believe, here with us on this important issue.

If members do not have questions, we will move into the markup. With that, this concludes the hearing portion of our meeting. Without objection, the subcommittee will take a short recess to allow the staff to set up the room for the markup.

Thank you.

[Whereupon, at 11:35 a.m., the subcommittee was adjourned.]

A P P E N D I X

July 22, 2003

Opening Statement of the Honorable Bob Ney
Chairman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services

"H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003"

Tuesday, July 22, 2003

The Subcommittee on Housing and Community Opportunity meets this morning to a hold a hearing on "H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003."

The Federal Housing Administration is one of the most effective programs in helping low- to middle-income buyers purchase their first home. It was originally designed to encourage lenders to make credit more readily available and at lower rates. Through FHA programs, HUD insures mortgages and loans made by HUD-approved lenders for a wide variety of purposes, including new construction, rehabilitation, property improvement, and refinancing in connection with a wide variety of types of property. FHA programs include all types of residential property (multifamily, single family, manufactured homes), nonresidential commercial property, hospitals and certain other healthcare facilities.

The FHA multifamily mortgage insurance program is a critical source of financing for affordable multifamily rental housing. During the previous two years, Congress supported and implemented improvements to the program, including increasing the base loan limits by 25 percent and indexing the loan limits to inflation, which begins in 2004. As a result, loan volumes have increased significantly in many areas of the country where the program previously was not working.

However, there are a number of high-cost urban markets, such as New York, Boston, San Francisco, Chicago and Los Angeles, where construction costs are significantly higher than in other areas of the country, and the high-cost factors have not been sufficient to allow use of the FHA multifamily mortgage insurance programs.

Under current statute, the HUD Secretary may increase the loan limits in high cost geographic areas up to a maximum that is expressed as a specific percentage (currently 110 percent) above the statute's base limit. The Secretary may also increase the loan limits on a project-by-project basis up to a level that is a specific percentage (currently 140 percent) above the base limit, if it is deemed necessary because of high costs.

H.R. 1985, the "FHA Multifamily Loan Limit Adjustment Act of 2003" was introduced by Cong. Gary Miller May 6, 2003. It would amend the National Housing Act to give the HUD Secretary the discretion to increase the maximum mortgage amount limit for FHA-insured mortgages for multifamily housing located in high-cost areas. In addition, it would change the statutory maximum adjustment percentage for geographic areas from 110 to 170 percent, which would change HUD's maximum high cost percentage to 270 percent.

Providing the HUD Secretary additional flexibility to increase the maximum loan limits in high cost areas would greatly improve the FHA multifamily mortgage insurance programs. With severe shortages of affordable rental housing in most of the high cost markets, this change would enable developers to provide much-needed new affordable housing to low- and moderate-income families.

I would now like to recognize the Subcommittee's Ranking Member Maxine Waters.

Opening Statement

Chairman Michael G. Oxley

House Committee on Financial Services

Subcommittee on Housing and Community Opportunity

H.R. 1985 – The FHA Multifamily Loan Limit Adjustment Act of 2003

July 22, 2003

I want to thank Chairman Ney and Ranking Member Waters for their leadership on this and other issues under the jurisdiction of the Subcommittee on Housing and Community Opportunity.

Today, the Subcommittee will hear testimony from the Department of Housing and Urban Development and expert witnesses on a bill that will provide the Housing Secretary the discretion to raise multifamily loan limits.

The FHA Multifamily Loan Limit Adjustment Act, H.R. 1985, which was introduced by Rep. Gary G. Miller, would increase affordable housing availability for low- and moderate-income families across America.

The bill would allow HUD to increase multifamily mortgage loan limits for FHA insured properties in high-cost areas. This increase will be tremendously helpful in very expensive or high-cost housing areas such as Boston, New York City, San Francisco, Los Angeles, Philadelphia, and Seattle, to name a few.

We have learned from our numerous hearings during the 107th and 108th Congresses that the involvement of the private sector is key to developing good housing for working families. The FHA Multifamily program is one such partner that provides mortgage insurance for multifamily developments, particularly serving families around 80 to 130 percent of area median income. These families include police, firefighters, teachers, entry and mid-level service workers, among others.

In our most expensive cities, it is very difficult for these workers, particularly the young or those starting out in the workforce, to find affordable rental housing where they live and work. Using statistics provided by the Department of Housing and Urban Development, in 2003, no multifamily loans have been FHA insured in New York City, Philadelphia, Los Angeles, Seattle, Hawaii, and New Jersey. In the entire state of California, only one multifamily development has been built and insured by FHA. Coincidentally, in these cities, there appears to be a wide availability gap of affordable rental housing.

While it is certain that homeownership is the American Dream and should be a worthy goal pursued by every family and individual, it is equally as certain that there are some, particularly young families, who must first rent and then "move-up" to homeownership at a later time.

I am hopeful that today's hearing will bring about a thorough analysis of the affordable rental housing issue as well as how H.R. 1985 can be a step in the right direction.

Once again, many thanks to Chairman Ney and Ranking Member Waters for your leadership on this issue.

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Congressman Joseph Crowley
Opening Statement
July 22, 2003

- I want to thank the Chairman and Ranking Member for allowing me to give an opening statement and I will be relatively brief knowing we have a lot of work to ahead of us over the next 2 days

- I want to begin by highlighting the good things this Committee will be undertaking today

- I salute the Committee for taking up the FHA Multi-Family Loan Limits bill which will help my constituents in New York City, an area with some of the highest costs of housing and lowest rates of home ownership in the nation

- Additionally, I welcome the Committee's consideration of the FACT ACT

- It's been a long process and Subcommittee Chairman Bachus and Ranking Member Sanders worked tirelessly for the bill today, and we are all impressed with both of your efforts

- This bill makes permanent the 7 preemptions that have been our focus over the past few months; I view this as a positive

- Our economy and our credit granting industry should not have to continually look over its shoulder at potentially damaging laws in all 50 states - laws that could hinder the availability of credit for millions of Americans

- Additionally, this bill provides for greater increases in protecting American consumers from identity theft to protect honest Americans

- This bill also works to ensure every American can receive at direct request a copy of their consumer report, which aren't just credit reports but other reports such as medical reports.

- I am pleased that the a Medical Information Bureau has notified me that they will honor this request and abide by all new statutes pertaining to FCRA and I would like to submit their letter stating this for the record

- I am pleased that Ranking Member Frank has drafted important medical privacy safeguards in the bill which will ensure that one's health information will not be used in the credit granting process

- It's a good bill and I look forward to our debate on it today

- Unfortunately, this Committee is also taking up the highly partisan and very much unnecessary bill to attack the mutual fund industry

- This bill is bad policy, bad politics and bad statesmanship - it should be rejected wholesale and put this entire ugly matter behind us before it is too late

- I also oppose the SEC bill we will be looking at, appropriately enough, last

- This bill will ensure that states have their hands tied, will turn back the clock on important investigations, such as the landmark investigations led by Attorney General Eliot Spitzer

- This bill will reduce consumer confidence, centralize too much power in DC and allow bad actors to continue their illicit practices

- I urge this Committee to stay focused, remain above the partisan fray and work for all Americans and not just the select few

- I yield back

MIB *Knowledge to Drive Decisions*

July 23, 2003

The Honorable Joseph Crowley
U. S. House of Representatives
312 C.H.O.B.
Washington, DC

Dear Congressman Crowley:

MIB Group, Inc. (MIB) and its predecessor, the Medical Information Bureau, has been and continues to be a strong supporter of the Federal Fair Credit Reporting Act (FCRA) since its passage in April, 1971

As it has in the past, MIB intends to comply fully with all applicable provisions of the FCRA as amended by HR2622 or other legislation, including the requirement to provide any consumer with a copy of his or her MIB file at the frequency and price (or free) as required by law.

Very truly yours,

J. S. Corbett

James S. Corbett
Vice President and General Counsel

Cc: The Honorable Michael B. Oxley, Chair
The Honorable Barney Frank, Ranking Member

MIB GROUP, INC. | 160 UNIVERSITY AVENUE | WESTWOOD, MA 02090-2307 | TEL: 781.329.4500 | FAX: 781.329.3379
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Washington, DC 20006
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STATEMENT

of

Linda Cheatham

Senior Vice President

Berkshire Mortgage Finance

On

FHA Multifamily Loan Limit Adjustment Act of 2003

Before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

July 23, 2003

Good Morning Mr. Chairman, and Members of the Subcommittee, my name is Linda Cheatham, and I am Senior Vice President of Berkshire Mortgage Finance. I am appearing on behalf of the Mortgage Bankers Association of America (MBA)*. MBA is grateful for the opportunity to present its views to the Housing and Community Opportunity Subcommittee today on HR 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003. MBA applauds Representative Gary Miller (R-CA) and Ranking Member Barney Frank (D-MA) for introducing HR 1985. This bill would increase the maximum FHA multifamily mortgage limits for high-cost areas, a critical step in the effort to increase the nation's affordable multifamily housing stock.

I have over 30 years of experience with FHA multifamily insurance programs, most recently as head of FHA production at Berkshire Mortgage Finance, a multifamily mortgage banking company that originated over $190 million in FHA-insured multifamily loans last year.

MBA strongly supports the Federal Housing Administration's multifamily mortgage insurance programs. FHA multifamily mortgage insurance has operated successfully for over 65 years working with private sector partners, to expand the supply of rental housing. Over the past six decades, this public/private partnership has leveraged more than $100 billion of private sector investments to provide rental housing for more than 4 million families and the elderly throughout the country.

What are the FHA multifamily programs and how do they work?

The Federal Housing Administration (FHA) was created under the National Housing Act of 1934. It was developed initially to attract private and public sector credit into the housing market to meet mortgage financing needs of low-, moderate-, and middle-income Americans by insuring long-term, fully amortizing single-family and multifamily mortgages. From it's beginning, a major responsibility of FHA has been to enhance the nation's multifamily housing stock. FHA facilitates the construction and maintenance of multifamily housing by providing mortgage insurance to finance the construction, purchase, rehabilitation, or the refinancing of rental housing, and cooperatives. Over the years, FHA has been expanded to include programs for the finance of special needs groups such as the elderly and disabled. Each of the programs is referred

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*MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,600 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mbaa.org.

to by the section of the National Housing Act, as amended, under which it is authorized.

FHA's multifamily mortgage insurance programs enable qualified borrowers to obtain long-term, fixed-rate, nonrecourse, financing for a variety of multifamily property that are affordable to low- and moderate-income families. Out of the cash flow of a property approved for FHA-insured financing, the borrower pays a mortgage insurance premium (MIP) to the lender, which is then passed through to FHA in return for the insurance. The MIP charged is intended to compensate FHA for its risk and the cost of doing business, including the expected cost of default. Recent calculations by HUD and OMB of the cost of the programs show that virtually all of the FHA multifamily insurance programs operate on a break-even basis or make money for the government.

Why is it necessary to increase the FHA multifamily mortgage limits?

According to a paper, "Multifamily Rental Housing in the 21st Century" written by Kent Colton and Kate Collignon in January 2001 for the Joint Center on Housing Studies at Harvard University, economic growth over the past decade has actually served to exacerbate the nation's shortage of decent, affordable housing. According to the white paper, in 1997, there were only 76 affordable apartments for every 100 extremely low-income renter households. And those low-income households lucky enough to find affordable housing were often paying a higher percent of their income for it in 1998 (27.7 percent) than they did in 1978 (25.5 percent), because rent increases during that period surpassed renter household income growth.

Housing affordability issues are not restricted to low-income households. The Center for Housing Policy, a subsidiary of the National Housing Conference, reported in a November 2002 study, "America's Working Families and the Housing Landscape 1997-2001", that more than 4.8 million working families had critical housing needs in 2001 (defined as spending more than half their income on housing or living in physically dilapidated units). And their numbers have been increasing. In the four years between 1997 and 2001, the number of these households jumped 60 percent (or by 1.8 million). The Center says that a total of 14.4 million of the nation's families have critical housing needs, and that, increasingly, having a job does not fully guarantee a family a decent place to live at affordable cost.

Further, according to the Colton/Collignon study, the growing affordability gap is the result of two trends: a shrinking supply of low-cost housing, and an expanding demand from an increase in the number of low-income households. Colton & Collignon state the overall challenge in the future is to provide housing that working families can afford, but in many communities the economics will simply not allow developers and builders to construct units where the rents will be affordable.

Haven't FHA multifamily loan limits increased over the past two years?

MBA applauds Congress and the Administration for taking steps over the past two years to update the FHA multifamily loan limits. First, the FY2002 VA-HUD Appropriations Act provided for a 25 percent increase in the multifamily loan limits, which addressed problems resulting from increased construction and land costs over the last decade. This increase in the FHA loan limits was essential, as multifamily loan limits had been unchanged for ten years, and had virtually shut down the FHA new construction programs in most major cities, and second-tier cities in the country. Second, in 2002, Congress passed and the President signed into law the FHA Downpayment Simplification Act, S 2239, which will index the FHA multifamily loan limits to the Consumer Price Index (CPI) beginning in January 2004. This was a crucial next step in making FHA multifamily mortgage insurance a key financing mechanism for the production of rental housing. Unfortunately, the current maximum FHA multifamily mortgage limits are inadequate and continue to constrain new construction and rehabilitation in many urban and suburban areas, where construction costs are significantly higher than in the rest of the country.

Why increase FHA multifamily loan limits one more time?

One final step to increase the FHA multifamily loan limits in high-cost areas still remains as the last hurdle to make these programs as effective as they can be in providing affordable rental units. H.R. 1985 establishes an additional mechanism for addressing the need for new construction or substantial rehabilitation in extremely high-cost areas of the country by giving the Secretary of HUD the authority to increase the maximum high-cost percentage in extremely high-cost areas to 170 percent.

A look at recent FHA new construction or substantial rehabilitation activity and the cost of renting an apartment in certain high-cost areas illustrates the need for this legislation. According to the Center for Housing Policy study published in May 2003, "Paycheck to Paycheck: Wages and the Cost of Housing in America," the following are fair market rents for a two-bedroom apartment in selected high cost areas, and the hourly wage needed to afford them:

Market	Monthly Rent	Required Hourly Wage
Boston, Massachusetts	$1,250	$24.04
Los Angeles, California	$823	$15.83
Nassau/Suffolk, New York	$1,230	$23.65
San Diego, California	$1,012	$19.46

Also, according to the Center's study, in 2001, the percent of monthly income needed to pay the rent for a two-bedroom apartment in Boston for janitors was 69 percent, and for retail salespersons in Boston was 81 percent.

While FHA multifamily loan limits were increased in 2002, as stated earlier, according to Department of Housing and Urban Development data, there were no FHA-insured multifamily loans for new construction or substantial rehabilitation approved in Massachusetts in FY 2002 and FY 2003; there was one loan approved in California in each of FY 2002 and FY 2003; and there was one loan in New York in FY 2002 and no loans in FY 2003.

Clearly, without higher FHA multifamily loan limits in high-cost markets, critical housing needs will go unmet. Those who will be most affected will include low- and moderate-income families, including important community service providers such as teachers, firefighters, and police officers. By increasing the maximum loan limit for FHA's multifamily programs, these programs can help provide the housing opportunities necessary for the economic and social well being of our nation.

Mr. Chairman, it is critical to institute this final step to update the FHA multifamily loan programs in order for the programs to reach their full potential and serve the many needy working families in America. Mr. Chairman, MBA stands ready to work with you to advance this important legislation.

Testimony of Howard Earl Cohen
In Favor of the Passage of H.R. 1985
July 22, 2003

My name is Howard Earl Cohen. I am president of The Beacon Companies Limited Partnership, a Boston-based residential development company. Beacon has been in the development business for over sixty years. (I have attached a copy of my resume to this testimony.) We develop, own and manage both market rate and affordable developments. We currently own and manage 8500 residential units primarily in New England, Pennsylvania, and Virginia. Our portfolio consists of developments financed through the FHA as well as Fannie Mae, Freddie Mac, various HFAs, and conventional financing sources.

Over the last eight years we have been unable to access FHA for any of our developments in the greater Boston area and Providence, Rhode Island due to the constraints imposed by the statutory mortgage limits.

I first became intensely aware of this issue in 2000 when we tried to develop a residential high rise in Providence's Capital Center. Capital Center is a major effort by Providence to redevelop its downtown area. The City believed that a residential component was highly desirable. In my experience this site would have been a perfect fit for FHA insurance. However, the statutory mortgage limits prohibited the use of FHA.

Shortly thereafter I was asked to serve on a commission established by Boston's Mayor Menino on housing finance. In reviewing the history of housing finance in the City, it quickly became apparent to the commission that a substantial proportion of the City's most successful and innovative residential developments had been FHA assisted but that all these developments were at least ten years old. Again, as we probed the issue, it became apparent that due to the statutory mortgage limits, FHA was no longer a viable housing finance tool in the Boston area. One of the commission's primary recommendations for federal action was to encourage the adoption of legislation such as H.R. 1985.

As the commission was meeting, we learned about the admirable efforts of the Bush Administration and this Committee to support the first increase in the FHA mortgage limits in a decade. However, the 25% increase in statutory limits did not solve the problem in our high cost area. It was at this time that through the auspices of the City of Boston and Massachusetts housing advocacy organizations that we began to discusses with Congressman Frank the need for additional legislation.

Let me provide an example from our portfolio. Beacon currently is completing construction of a 200-unit development on Boston's south shore and anticipates commencing construction of another 150-unit development in the same area. In both cases these are mixed income developments. Pursuant to the state's zoning law, twenty percent of the units must be set-aside for occupants with incomes below fifty percent of median income. Both of these developments will utilize low-income housing tax credits.

These are exactly the type of developments where FHA's experience and mission would make it a perfect lender.

However, the per unit cost of these developments, including land, is in the range of $150,000 per unit. Direct construction costs are in the range of $90 per square foot. This is the general range of the cost of new suburban low-rise multi-family development. For an urban high-rise development, these numbers would have to be essentially doubled. At the current statutory limits, the maximum FHA loan would be $109,000 per unit, must less than could be obtained with conventional financing. Were H.R.1985 in effect with loan limits at 270% of the statutory base, FHA insurance would be a prime candidate for financing.

It is beyond my level of expertise to justify or even explain why there is such a vast divergence in the cost of creating a housing unit between various parts of the country. I do know that as an older, highly developed region, we face steep land costs and high site development costs with many of our sites requiring environmental remediation. Both our land constraints and our slower rate of growth mean that we cannot accomplish some of the economies of scale that I see in other parts of the country. The "in-fill" nature of much of our development requires particular attention to design and neighborhood compatibility. There are some obvious artificial cost burdens imposed by unnecessary code and permitting requirements that Governor Romney's administration is working hard to correct.

The cost of housing in Massachusetts has become a severe impediment to our economic development. Efforts to redress these costs and to encourage more residential development are a priority for both our Governor and the Massachusetts Legislature. The passage of H.R. 1985 would revive FHA as viable tool in our region, which would contribute to a reduction in our costs of financing and thus the overall cost of producing housing. Enactment of H.R. 1985 would be a significant federal contribution to this effort at no additional cost to the federal government.

Howard E. Cohen

As President of The Beacon Companies, Mr. Cohen oversees all operations of the company including strategic planning, team coordination, development selection, development permitting, and financial management. Beacon develops, owns and manages market rate and affordable multifamily housing. It currently owns and manages 8,500 units and has 2,000 units in development. Howard has extensive experience in all aspects of the development, financing and management of apartment developments.

Prior to joining Beacon in 1996, Howard provided legal counsel and development consulting services with respect to the development and financing of tens of thousands of multifamily housing units utilizing all forms of financing and government assistance.

From 1980 to 1995, he was a partner at the law firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (1980 – 1995) where he represented private and public developers of market rate and affordable housing.

As General Counsel at the Massachusetts Housing Finance Agency (1978 – 1980), Howard represented the Agency in all aspects of multifamily bond financing and lending, negotiations with housing developers, closing of loans, and drafting legislation.

From 1975 through 1978 Howard served as General Counsel of the Cambridge, (Massachusetts) Housing Authority. After graduation from law school, he worked as a staff attorney for the Massachusetts Law Reform Institute (1971 – 1975).

Howard is on the board of directors of the National Housing and Rehabilitation Association and the Citizens' Housing and Planning Association of Greater Boston. He was vice-president of the Newton Community Development Foundation, the non-profit housing developer in his hometown. Howard served on the Fannie Mae National Advisory Committee, Fannie Mae Housing Impact Advisory Council, and the Massachusetts Housing Finance Advisory Committee. In1996 he served on the U.S. Senate Banking Committee Section 8 Portfolio Restructuring Working Group. In 2001, he served on the Mayor Menino Commission on Housing Finance and he just completed serving on Governor Romney's Chapter 40B (comprehensive permit) Task Force.

Howard received a B.A. from Washington University in St. Louis in 1968 and a J.D. from Harvard Law School in 1971. In 1978 he was a Loeb Fellow at the Harvard School of Design.

Testimony Of
Casimir Kolaski
President
Kolaski Housing Advisors, Inc.

Before the
United States House of Representatives
Housing and Community Opportunity
Subcommittee of the
Financial Services Committee

July 22, 2003

I would like to thank the Subcommittee for inviting me to speak about the Federal Housing Administration's (FHA) multifamily insurance programs. My name is Casimir Kolaski, and I am from Providence, Rhode Island. I am the President of Kolaski Housing Advisors, Inc. My company provides consulting services on the acquisition, development, financing and management of affordable rental housing, assisted living and health care facilities. From 1971 to 1997, I worked for the U.S. Department of Housing and Urban Development (HUD) and served as the Director of Housing in HUD's Boston office, as Special Assistant to the Assistant Secretary for Housing/FHA Commissioner and as Manager of HUD's Rhode Island office. Currently, I sit on the board of two Rhode Island nonprofit housing corporations.

Introduction

In my capacity as Director of Housing in HUD's Boston office, I directed the FHA single-family and multifamily insurance programs, project-based Section 8 subsidy program, and the Sections 202 and 211 elderly and disabled programs. The Boston office's multifamily portfolio consisted of over 85,000 units, valued at $2.2 billion in insured loans. I worked with the Massachusetts Housing Finance Agency (now MassHousing) to design and implement the Multifamily Property Disposition Demonstration, an ambitious effort to revitalize and restore over 2,000 units of HUD-foreclosed rental housing in the city of Boston. From 1979 to 1993, I was Manager of HUD's Rhode Island office. I worked closely with the Rhode Island Housing and Mortgage Finance Corporation on a number of successful joint affordable housing initiatives.

Currently, I work with clients who are developers of affordable rental housing for families and seniors, as well as for clients developing nursing care and assisted living facilities. We make every effort to use HUD's programs, although, frequently, we must tap additional sources of financing, such as the low-income housing tax credit, state and city housing trust funds, and the Federal Home Loan Bank's Affordable Housing Program. Complicating our efforts are the extraordinarily high land and labor costs found on cities such as Providence and Boston, which make use of some programs, such as FHA insurance, difficult or impossible to use.

The Need to Increase the High-Cost Limits

The FHA Section 221(d)(4) mortgage insurance program is intended to provide financing for market-rate housing that is affordable to moderate and middle income households. The program is unique in that it offers a variety of terms to developers that are not available through conventional financing and are critical to the feasibility of many affordable housing projects. HUD has taken steps in recent years to improve the FHA multifamily loan programs, notably instituting the Multifamily Accelerated Processing (MAP). MAP was intended to streamline the application process and make it easier for both lenders and builders to use the program.

In recent years, Congress has made two important improvements to the FHA multifamily mortgage insurance programs. It raised the maximum base mortgage limits by 25 percent and will index those limits to inflation beginning in 2004. These steps will certainly improve the ability of builders to use the program in more areas of the country. However, the 25 percent increase alone is not sufficient to meet the needs in high-cost urban markets, such as Providence and Boston.

High land and labor costs are typical problems in large cities and in metropolitan areas experiencing growth. Other costs, such as impact fees, permitting fees and real estate taxes, also tend to be significantly higher. The zoning process is complex and time-consuming, and the Not-In-My-Back-Yard (NIMBY) attitude continues to impact the ability of developers to build rental housing.

Boston and Providence are high-cost areas, and their high cost percentages are at the maximum of 210 percent. On a project-by-project basis, HUD may approve an increase up to 240 percent. I am working with a client who is building a new addition to an existing Section 202 Elderly housing apartment in Boston. There are no land costs and no construction costs for community space or other amenities because they are already provided in the existing building. The construction costs for this addition are $133,000 per unit. As a result, this project could not be financed with an FHA-insured loan. The financing for this project will come from a capital grant through the Section 202 program, as well money from the Affordable Housing Trust and the city of Providence's housing trust funds, which are substantial subsides not available to projects financed with FHA-insured loans.

I mentioned earlier that I worked with the MassHousing on the disposition of 2,000 HUD-foreclosed units in the Multifamily Disposition Program. Of the 11 projects in the program, three involved the total demolition and new construction of the projects. The per unit total development cost of Academy Homes II, the last of the three new construction projects (which is currently nearing completion), is $233,000 per unit. Of that amount, about $21,000 is attributed to demolition, asbestos removal and other environment issues, leaving a construction cost of $212,000 per unit. That figure does not include land costs, and there were no impact fees to pay. All of the projects were competitively bid. Clearly, these projects could not be financed with a Section 221(d)(4) insured loan.

Support for H.R. 1985

In summary, I strongly urge the Housing Subcommittee to support H.R. 1985, introduced by Representatives Miller (R-CA) and Frank (D-MA). Although the 25 percent increase in the base loan limits was an important step towards making the FHA multifamily insurance programs work more effectively, the high-cost areas continue to suffer from the lack of access to the program. With unemployment rising and wages not keeping pace with rising rents, it's especially important that the program be available to provide much-needed affordable housing to our cities' working families and individuals. There are few, and often no, alternatives in the market available to them. These are the people who teach our children, protect the citizens, serve you in restaurants and retail establishments, take care of our office buildings, provide public transportation to residents and visitors and keep our streets and parks clean. We must find a way to provide them with decent qualify affordable housing.

Thank you for the opportunity to speak to you today.

NATIONAL ASSOCIATION OF HOME BUILDERS

Testimony Of

Gary Ruping

President

Ruping Builders, Inc.

On behalf of the

National Association of Home Builders

Before the

United States House of Representatives

Housing and Community Opportunity

Subcommittee of the

Financial Services Committee

July 22, 2003

On behalf of the 211,000 members of the National Association of Home Builders, I want to thank you for inviting us to speak about the Federal Housing Administration's (FHA) multifamily mortgage insurance programs. My name is Gary Ruping, and I am the founder and owner of Ruping Builders, in Billerica, Massachusetts, which is located in the greater Boston area. Ruping Builders was formed in 1985 and has been involved in the development of a range of housing, including quality apartment homes and condominium communities. A portion of our business is focused on affordable housing. Currently, I am the second vice president of the Builders Association of Greater Boston, and I have worked on issues related to affordable housing for some time. I served as Co-chairman on former Governor Cellucci's Special Commission on the Barriers to Housing Development and have worked extensively with government and elected officials in Massachusetts on housing issues.

Introduction

NAHB is a strong supporter of the FHA multifamily mortgage insurance programs. We have worked with HUD and Congress over the years to bring improvements to the programs, which are critical to addressing the nation's affordable housing needs. In the last two years, Congress passed legislation that increased the FHA multifamily mortgage loan limits by 25 percent and, beginning in 2004, indexes the loan limits to inflation. The 25 percent increase had an immediate effect on the program, opening up markets previously unable to use the programs because the loan limits were too low. Indexing the loan limits will help stabilize the programs and give builders and lenders confidence that they will be able to use the programs in their communities every year, even as construction and land costs rise over time.

The Need to Increase the High-Cost Limits

NAHB also strongly believes that housing needs in high-cost markets where the base loan limits are too low must be addressed. There are a number of high-cost urban markets across the country, including Boston, Providence, New York, Greensboro, Chicago, Minneapolis, San Francisco, Los Angeles and Seattle, where land and construction costs are significantly higher than in other areas of the country, and the current high-cost limits have not been sufficient to allow effective use of the FHA multifamily mortgage insurance programs.

Currently, the law gives the Secretary of the U.S. Department of Housing and Urban Development (HUD) the discretion to increase the base limits by up to 110 percent in geographic areas where construction costs are very high. The Secretary is also able, at his discretion, to approve an increase of up to 140 percent for individual projects in any area, but only when certain determinations can be made, including that the housing is necessary and there is clear justification for excessive costs (e.g., confined inner city sites, remote location, scattered sites or historic condition) that makes costs higher than similar construction in the area. Supporting documentation must be provided, and HUD headquarters must approve the request.

Recent Trends

Each year, HUD publishes a list of cities it has determined to be high-cost. The list provides the high-cost percentage (HCP) that HUD has determined is appropriate for each city. The limits are expressed as a percentage of the statutory base limit (the equivalent of raising the base limit by 110 percent is multiplying the base limit by 210 percent, or a factor of 2.1). By law, the maximum high-cost percentage can be no higher than 210 percent. As of January 2003, there are 16 cities that are at the maximum 210 percent statutory limit. There are another five cities whose HCPs fall between 205 and 209 percent. This is in contrast to the limits in effect for 2002, where 13 cities were at the maximum 210 percent statutory limit and only three cities fell between 205 and 209 percent. Twelve of the 16 cities at the maximum in 2003 were at the maximum in 2002.

An analysis of HUD data reporting initial endorsements for Fiscal Year 2002 shows that Boston had three Section 221(d)(4) new construction projects. The cities of Providence, New York, Philadelphia, Chicago, Los Angeles, San Francisco and Seattle did not have any. In contrast, cities with HCPs well below the maximum fared much better, for example, Houston and San Antonio each had nine Section 221(d)(4) new construction projects.

Similar patterns are occurring in fiscal year 2003. HUD data show that, through April 2003, Boston, Providence, New York, Greensboro, Los Angeles, San Francisco and Seattle have had no Section 221(d)(4) initial endorsements. Chicago has had five, and Minneapolis/St. Paul has had two. Again, cities with HCPs well below the maximum are performing better. Atlanta and Houston have each had four Section 221(f)(4) initial endorsements.

NAHB conducted an analysis of nine high-cost urban areas (Boston, Providence, Philadelphia, New York, Chicago, Minneapolis, Los Angeles, San Francisco and Seattle), all of which are at the 210 percent maximum. The analysis is based on a hypothetical non-elevator building with 42 two-bedroom units. R.S. Means QuickCost Estimator data for 2003 was used to estimate construction costs. A minimal allowance for raw land costs was added to the construction costs. (The estimate is conservative because land costs vary significantly depending on the market.) NAHB's analysis demonstrates that, even with the recent 25 percent increase and current high-cost factors, costs in these cities exceed or closely approach the current limits. For example, the NAHB analysis shows that, in Boston, a typical building would require a mortgage that is 231 percent of the statutory base limits, well above the current statutory limits. Los Angeles would require a mortgage that is 215 percent of the statutory base limits, while New York would need a 264 percent limit.

The HUD Secretary has the ability to approve an increase in the statutory limits up to 240 percent on a case-by-case basis. However, additional administrative and paperwork burdens are required for such an approval. The biggest disadvantage is that a developer will have already expended a considerable amount of money applying for the loan before he knows if a loan is possible under those circumstances. As NAHB's analysis shows, even the case-by-case exception is not sufficient in many high-cost cities to support a new construction project financed by an FHA-insured loan. The effectiveness of the program would be greatly increased if builders in high-cost cities were confident they could proceed with an FHA-insured loan without the additional cost, time and difficulty of applying for a case-by-case exception. When the statutory limits approach or are at the maximum, builders have little incentive to pursue an FHA-insured loan. Additionally, if cities are at the maximum for multiple years, builders are even less likely to even consider using the program.

An Example of the Limitations of Using FHA in High-Cost Areas

While it's useful to look at data, it's also useful to take a closer look at an actual project to help understand why the statutory maximum limits are not sufficient in markets such as Boston. I am currently in the planning stages of developing a 180-unit, garden-style walk-up apartment located in Burlington. Twenty percent of the units will be affordable to seniors with incomes up to 80 percent of the area median, and the rest will be at market rates. The units range in size from 700 square feet for a one-bedroom unit to 1,200 square feet for a two-bedroom unit. The development will include a club house and modest outdoor pool, which are typical amenities offered in this marketplace. This development will offer quality affordable housing; it is not intended to serve the luxury, high-end market.

I decided to pursue a Section 221(d)(4) insured loan. The Section 221(d)(4) program offers terms related to the debt service coverage ratio, interest rate and loan period that are needed to make the project financially feasible. In addition, the construction loan is automatically converted to a permanent loan. Conventional loan terms are not as favorable, and I would have to obtain both a construction loan (with recourse) and a permanent loan. With interest rates about comparable right now, the Section 221(d)(4) program seemed the way to go.

However, I may not be able to actually obtain the FHA-insured loan. My total development costs are $176,000 per unit, which exceeds the high-cost limits. This figure is actually somewhat low, because I bought the land many years ago at a cost of $15,000 per unit. The land is currently worth $50,000 per unit. My hard construction costs are $113,000/unit; impact fees are $3,000/unit, and permit costs run $10,000/unit. The balance of total development costs includes architecture, engineering and legal fees, environmental testing and builder's overhead. In addition, labor costs in the Boston area are very high, which contributes to the high construction costs.

The current statutory mortgage loan limit for a two-bedroom unit in a non-elevator structure is $51,920. The maximum permitted limit (using the case-by-case exception at 240 percent HCP) is $124,608 per unit. I have struggled to find ways to save on construction costs and have already reduced my budget by $2 million. It is unclear to me at this time whether I will be able to proceed. If I cannot finance the project with a Section 221(d)(4) insured loan, I would be faced with putting a significant out-of-pocket monetary contribution into the project. My alternative is to sell the land to a large Real Estate Investment Trust (REIT). The REIT will build a luxury, high-end apartment or condominium because this market can support such a development. The community will lose the opportunity to provide quality affordable rental housing for seniors and families.

Support for H.R. 1985

NAHB strongly supports H.R. 1985, introduced by Representatives Miller (R-CA) and Frank (D-MA), which would amend the National Housing Act to increase the maximum mortgage amount limit for FHA-insured mortgages for multifamily housing located in high-cost areas. The bill would give the Secretary of HUD additional flexibility in high-cost areas by allowing the base loan limits to be increased by up to 170 percent instead of 110 percent (in other words, to increase the maximum HCP to 270 from 210 percent).

NAHB believes that the proposed increase should be sufficient to address the most critical cases, such as New York and Los Angeles, neither of which have had one initial endorsement yet in FY 2003, as well as those cities that soon may be constrained by the current statutory maximum limits. As a builder, I am always pursuing the most economical way to finance my developments. Currently, the FHA multifamily insurance programs simply are not open to me because I conduct business in a high-cost area. Additionally, thousands of families, including seniors, are being deprived of quality affordable housing that could be built if the program were more effective. NAHB urges the House of Representatives' Subcommittee on Housing and Community Opportunity to move forward with H.R. 1985.

Thank you for the opportunity to present NAHB's views this morning.

Estimated Cost of a Multifamily Unit in Selected Areas

	Cost of a 50,000 sq ft project in 2003	Number of units in the project	Cost Per Unit	With minimal allowance for raw land added	Percentage of 221(d)4 Basic Limit
Boston, MA	$4,707,000	42	$112,071	$120,077	231%
Chicago, IL	$4,579,000	42	$109,024	$116,811	225%
Los Angeles, CA	$4,370,000	42	$104,048	$111,480	215%
Minneapolis, MN	$4,588,000	42	$109,238	$117,041	225%
New York, NY	$5,372,000	42	$127,905	$137,041	264%
Philadelphia, PA	$4,559,000	42	$108,548	$116,301	224%
Providence, RI	$4,255,000	42	$101,310	$108,546	209%
San Francisco, CA	$5,085,000	42	$121,071	$129,719	250%
Seattle, WA	$4,223,000	42	$100,548	$107,730	207%

Based on a hypothetical low-rise project with 42 2-Bedroom Units @ 1050 sq ft each plus 5900 sq ft in common areas.
The cost of a 50,000 sq ft building in 2003 is estimated by using R.S. Means QuickCost Estimator.
The allowance for raw land is based on a general rule developed by real estate consultant Bob Sheehan: value of a multifamily unit tends to be roughly 15 times the value of raw land. Using this ratio should provide a conservative estimate of raw land cost in the case of a low-rise building in a high cost area.

Selected FHA Multifamily Mortgage Loan Limits Comparison of Current and Proposed High Cost Percentages

City	Current Base Limit (1)	Current High %	Est. Cost Per Unit (2)	Percent of Current Base Limit	Est. New High Cost Percentage (3) %	$
Boston, MA	$51,920	210%	$120,077	231%	231%	$120,077
Chicago, IL	$51,920	210%	$116,811	225%	225%	$116,811
Los Angeles, CA	$51,920	210%	$111,480	215%	215%	$111,480
Minneapolis, MN	$51,920	210%	$117,041	225%	225%	$117,041
New York, NY	$51,920	210%	$137,041	264%	264%	$137,041
Philadelphia, PA	$51,920	210%	$116,301	224%	224%	$116,301
Providence, RI	$51,920	210%	$108,546	209%	209%	$108,546
San Francisco, CA	$51,920	210%	$129,719	250%	250%	$129,719
Seattle, WA	$51,920	210%	$107,730	207%	207%	$107,730

(1) For 221(d)(4) two-bedroom unit, non-elevator building.
(2) Estimated cost of a two-bedroom unit using RS Means Quick Cost Estimator with an allowance for land costs. See chart above which describes how the estimated construction costs were derived.
(3) Estimate of level at which HUD would set high cost percentages if current 210% maximum is increased to 270%

STATEMENT OF COMMISSIONER JOHN C. WEICHER

ASSISTANT SECRETARY, OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE

UNITED STATES CONGRESS

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

COMMITTEE ON FINANCIAL SERVICES

JULY 22, 2003

Chairman Ney, Ranking Member Waters, distinguished members of the Subcommittee on Housing and Community Opportunity, on behalf of Secretary Martinez, thank you for inviting the Department to testify on the subject of H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003. We appreciate this opportunity to provide the Committee with the Department's comments on this proposed legislation.

The Administration and the Department are firmly committed to having FHA participate as a strong and effective player in the financing of rental housing nationwide. We have taken several major actions in that effort. First, we have put the multifamily insurance programs on a sound actuarial basis, enabling most of them to operate without the need for appropriated credit subsidy. Second, we have instituted an annual process of updating the mortgage insurance premiums, so that they continue to operate on a breakeven basis. Third, we have established a much faster underwriting process, saving the industry time and money. Fourth, we asked Congress for a 25 percent increase in the multifamily mortgage limits – the first increase in 10 years. Secretary Martinez called for this increase shortly after taking office.

This Administration inherited serious problems in FHA's basic multifamily housing insurance program-the Section 221(d)(4) program. This program previously required a credit subsidy allocation pursuant to the Federal Credit Reform Act enacted in 1990. Three times in eight years, the program was closed down because the available credit subsidy allocation was exhausted. The last time was in May 2001, when the Department was forced to suspend multifamily insurance processing. To prevent further such closures, the Department determined to place the program on a break-even basis. This necessitated raising the premium from 50 basis points to 80 basis points for FY 2002. Many in the industry were very concerned by this necessary increase. They worried that it would weaken the viability of the program and its ability to serve moderate-income families. That did not happen. In FY 2002, FHA insured 2.8 billion worth of Section 221(d)(4) projects, nearly double the FY2001 total, and the largest volume in twenty years.

At the same time that the premium was raised, the Department made a commitment to conduct a systematic analysis of the process used to determine the break-even premium and the credit subsidy rate. This was the first such re-analysis since Credit Reform was enacted in 1990. We found that the Section 221(d)(4) program could be operated on a break-even basis at a much lower premium - 57 basis points. This premium went into effect at the beginning of FY 2003. In addition, we instituted a process of annual re-analyses, to determine what the appropriate premium should be. As a result, the premium will be cut to 50 basis points in October, the start of FY 2004.

We also conducted this analysis for each of our other multifamily programs, and have been able to reduce either the premium or the credit subsidy for nearly every other multifamily program. All but four of our programs are now self-supporting, and do not require credit subsidy.

These efforts by this Administration have ensured that the 221(d)(4) program will not repeat the experience of past shutdowns. Mortgage bankers and developers are assured that they can continue to bring loans to the Department.

Moreover, once applications come to the Department, we now process them faster. All loan applications are now processed under the Department's Multifamily Accelerated Processing, or MAP, initiative. MAP was instituted on a national basis in FY2001. MAP provides guaranteed processing time frames, and it has resulted in a significant increase in mortgage applications and endorsements.

Our other major initiative has been to increase the mortgage limits. As I mentioned, shortly after assuming office Secretary Martinez called for a 25 percent increase in the statutory loan limits - the first such increase in a decade. Congress enacted that request in 2002.

Also in 2002, Congress approved indexing the FHA mortgage limits in Section 5 of the FHA Downpayment Simplification Act of 2002, commencing in January 2004. This indexing will further increase the loan limits, year by year. It will enable FHA to keep pace with inflation and changing economic conditions, and to meet the needs of families seeking moderately priced rental housing. Clearly, annual adjustments provide a better way to compensate for increased costs than by providing periodic dollar increases. The 2002 increase represented a catch-up for the inflation that occurred during the preceding decade. As indexing will not take effect until 2004, the Department cannot at this time determine to what extent it will increase FHA mortgage activities.

Thanks to all of these changes, in FY 2002 FHA insured over $7 billion worth of projects for all multifamily insured housing programs combined. This is our highest overall production level since the inception of the mortgage insurance programs. The projections for FY 2003 indicate that we will be exceeding the FY 2002 numbers. Through the first three quarters of FY 2003, 913 loan commitments for a total of $5.3 billion have been issued, a nine percent increase in mortgage activity compared to last year at this time, with one quarter remaining in the fiscal year. Having set a record last year, we appear to be on course to break it this year. Based on the increasing number of loan commitments over the last two years, the Department believes that the FHA multifamily mortgage insurance products, under current limits, meet the market needs in the great majority of this country.

Moreover, we are seeing applications from high-cost metropolitan areas that have not participated in the program in years - Philadelphia, Baltimore, here in Washington DC, and Seattle.

At the same time, I am pleased to report that the Department continues working vigorously to assist sponsors to close Section 202 Capital Advance projects to ensure that this needed affordable housing is built for low-income, elderly persons. We inherited a long pipeline of projects that had been approved years before, and we cleaned out that pipeline. In 2001, there were 48 projects that had been in the pipeline for at least four years - double the processing schedule established by the Department. Today, there are only 6 projects remaining. Although it is not the topic of this hearing, Mr. Chairman, I want to bring this to your attention as further evidence of the Department's commitment to provide affordable housing for people who need it.

However, there are areas where FHA insurance products are underutilized, such as San Francisco, Los Angeles, Boston, and New York. Based on discussions with our Field Office personnel and industry groups, there appears to be a variety of reasons for the lack of multifamily production in these areas. These reasons include: 1) suitable sites are not readily available; 2) available sites often have substantial environmental issues that render them cost prohibitive; 3) available sites are located in areas that are not marketable (i.e. no public transportation) and 4) regulatory barriers which add years to processing times. These local market issues will remain regardless of the proposed legislation.

Traditionally, FHA mortgage insurance has served an important public purpose by insuring projects that are affordable to low-to-moderate income families. It's important to make sure that FHA continues to serve that purpose -- that increases in the mortgage limits do not put FHA into higher-income housing, at the expense of moderately priced rental properties. That could be the case if the regulatory, environmental, and other problems mentioned above are the main reasons why multifamily housing is not being built in some areas. Increases in FHA loan~~s~~ limits must be carefully scrutinized for their net impact on affordable housing and these benefits must be weighed against any increased risk that the FHA Fund would face. It is worth noting that the national rental vacancy rate is 9.4 percent, the highest level in forty years. Given this, it is important that FHA exercise prudent underwriting and control of credit risk in an environment where there is a risk of over-supply of housing. At the same time, we certainly recognize that rental housing is more expensive in some markets than in others.

When we raised the mortgage limits, The Department made a commitment to study the impact of the increase, with particular reference to high-cost areas. We are now conducting that study, looking at 18 months' experience with the new limit. This study will be completed this fall and will provide the data to determine if further increases to the mortgage limitations are warranted to serve high-cost markets. Until then, the Department is not in a position to support this proposed legislation at this time.

Jul 21 03 04:11p Lisa Stiner 312-855-3848 p.2

HEARING RECORD

Fifield

July 21, 2003

The Honorable Robert Ney
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

RE: **HUD 221 (d) 4 program**

We developed over $2 billion in income properties in the Chicago area over the last twenty years. Very little of it has been urban rental housing, due to the lack of capital for it.

In Chicago there is a shortage of market rate rentals. In fact condo conversions have actually reduced the supply of rental housing in the downtown urban area. Many of the Urban renters are being forced into further out locations including the suburbs where they can find rental housing.

While the average suburban apartment development costs for frame construction run $75,000-100,000 per unit in Chicago, high-rise and mid-rise concrete buildings development cost run $180,000-220,000 per unit.

To finance a project in an urban area, HUD officials must waive the statutory loan limits on rental housing. They are unwilling to subject themselves to criticism for projects when they must waive these loan limits. They have nothing to gain and more to lose should a particular project default on its mortgage. So why bother waiving limits at all?

HUD's mandate is to help stimulate housing particularly in urban areas. Yet for over twenty years the amount of urban mid and high-rise HUD financed housing has dwindled to almost nothing.

Let HUD officials fulfill their mandate for more urban rental housing. To do this Congress must change its loan limits per housing unit to allow for the development of more expensive housing. Keep in mind that the market rental rate in the downtown areas are higher but they are offset by a lower commuting cost and many cases a lower utility costs than suburban renters find. I am happy to discuss this with you further.

Kindest regards,

Steven D. Fifield
President/CEO
The Fifield Company, Chicago Illinois

cc: Peggy K.Cullom – Staff Vice President Multi Family - Policy
John Oharenko- GMAC Mortgage Company

HEARING RECORD

Congress of the United States
Washington, DC 20515

July 22, 2003

The Honorable Robert Ney
Chairman
Subcommittee on Housing and Community Opportunity
Financial Services Committee
B-303 Rayburn HOB
Washington, D.C. 20515

Dear Chairman Ney:

We are very pleased to see affordable and fair housing as a priority of the Housing and Community Opportunity Subcommittee. As you continue to develop the subcommittee agenda, we request that a hearing be held on the high costs of the current housing market entitled, "A Housing Wage: the cost of Affordable Housing in America".

We would specifically like this hearing to focus on H.R. 1102, the National Affordable Housing Trust Fund Act, legislation that would provide the necessary resources to produce, rehabilitate and preserve at least 1.5 million affordable housing units over the next decade. This legislation currently has 203 tri-partisan cosponsors, including half of the members of the Housing Subcommittee, and has been endorsed by over 4,000 national, local and state organizations representing bankers, unions, religious leaders, environmentalists and affordable housing advocates.

In many areas throughout this country, a typical worker would have to make three times the minimum wage in order to afford a two-bedroom apartment. Just last year, more than 4 million American households paid over half of their limited incomes on housing, and according to the Urban Institute 3.5 million people will experience homelessness in the United States this year including 1.35 million children. H.R. 1102 could begin to reverse this trend of high costs and low resources.

But, not only would a National Affordable Housing Trust Fund help solve the affordable housing crisis in this country, it would also generate about 1.8 million decent paying new jobs and nearly $50 billion in wages according to a Center for Community Change study. As today's economy continues to sputter, and as millions of Americans are paying 50 to 60% of their limited incomes on housing, we respectfully request this hearing to take place as soon as possible.

Thank you for your consideration of our request. We look forward to working with you on this important issue.

Sincerely,

Bernard Sanders
Member of Congress

Christopher Shays
Member of Congress

Barbara Lee
Member of Congress

Chip Pickering
Member of Congress

Maxine Waters
Member of Congress

Rob Simmons CT/2
Member of Congress

Nydia Velazquez
Member of Congress

Jim Ramstad
Member of Congress

Julia Carson
Member of Congress

John McHugh
Member of Congress

Michael Capuano
Member of Congress

Melvin L. Watt
Member of Congress

William Lacy Clay
Member of Congress

Stephen Lynch
Member of Congress

Brad Miller
Member of Congress

David Scott
Member of Congress

Artur Davis
Member of Congress

Carolyn Maloney
Member of Congress

Jack Quinn
Member of Congress

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