

**Testimony of
Scott Farmer, Executive Director,
North Carolina Housing Finance Agency
before the
Subcommittee on Transportation, Housing and Urban Development and Related Agencies
Committee on Appropriations
United States House of Representatives
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Stakeholder Perspectives: Affordable Housing Production

March 7, 2019

Chairman Price, Ranking Member Díaz-Balart, and Honorable Members of the subcommittee, my name is Scott Farmer and I am the executive director of the North Carolina Housing Finance Agency, a self-supporting public agency with the mission to create affordable housing opportunities for North Carolinians whose needs are not met by the market. We are guided by sound business principles, with a focus on maximizing housing investments and minimizing operating costs.

It is my honor to serve as executive director of the North Carolina Housing Finance Agency and I am proud to be with you today representing our Board of Directors and over 160 dedicated staff. Our Agency has a long and successful record of stewardship of state and federal funds, financing over 282,000 homes and apartments worth more than \$23 billion since our creation in 1973.

Thank you for the opportunity to share our perspective about how state Housing Finance Agencies utilize federal programs to leverage private market resources to create and preserve affordable housing. Federal investments are important tools for states in addressing their most pressing housing needs. Among these programs are the HOME Investment Partnership program (HOME), Community Development Block Grant program (CDBG), the National Housing Trust Fund (NHTF), tax-exempt Housing Bonds, and the Low-Income Housing Tax Credit (LIHTC), the main financing vehicle for affordable rental housing development in the nation.

Each state's Housing Finance Agency (HFA) is designed with the flexibility to meet their state's unique housing needs. Nationally, state Housing Finance Agencies have delivered more than \$450 billion in financing to purchase, build, or rehabilitate more than seven million homes and apartments. The federal government is an indispensable partner with HFAs in addressing the nation's, and each state's, housing challenges.

Housing builds strong communities, supports families, and drives our nation's economy. According to the National Association of Home Builders, housing makes up about 18 percent of the Gross Domestic Product (GDP) of the United States, making the industry a critical component of a healthy economy.¹

Housing impacts all policy areas, contributing to social mobility, educational attainment, and health care access and outcomes. For example, housing directly impacts children's development and future success.

¹ National Association of Home Builders. (2018). Housing's Contribution to Gross Domestic Product (GDP). National Association of Home Builders [Web page]. Available at <https://www.nahb.org/en/research/housing-economics/housings-economic-impact/housings-contribution-to-gross-domestic-product-gdp.aspx>.

Children who grow up in housing their families can afford have improved behavioral and cognitive health outcomes, better access to high-quality education, and higher achievement in school and work.² In addition to affordability, housing quality is a strong, consistent predictor of emotional, behavioral and cognitive health in low-income youth.³ These factors influence children's school performance and access to future academic and job opportunities.

Unaffordable and unstable housing situations can cause frequent moves, adversely impacting children's educational outcomes by interfering with instruction and school attendance.^{4,5} Adolescents living in poor-quality housing score lower on standardized math and reading achievement tests, even after adjusting for parenting and other factors.⁶

In addition to housing, the community in which a child grows up also matters. A groundbreaking Harvard study found that young children whose families moved to lower-poverty neighborhoods had higher earnings, lived in better neighborhoods as adults, and were less likely to become single parents as adults.⁷

Entire communities can benefit from affordable housing investments. For instance, a recent large-scale study found that LIHTC developments in distressed neighborhoods improve the property values of surrounding homes.⁸ LIHTC developments can also lower neighborhood crime rates, specifically decreasing instances of violent crime.^{9,10}

Housing is also a primary social determinant of health. Families who lack affordable housing options often experience housing instability, which may include being behind on rent or cost-burdened (that is, paying more than 30 percent of monthly income for housing), living in overcrowded or substandard conditions, living in high crime neighborhoods, or experiencing homelessness.¹¹ Children age four and under who are unstably housed have an increased risk of hospitalization and developmental delays.¹² Lower-income caregivers of young children living in unstable housing are twice as likely to be in less-

² Newman, S. J. (2014). Housing Affordability and Investments in Children. *Journal of Housing Economics*, 24(): 89-100. doi: 10.1016/j.jhe.2013.11.006

³ Coley, R. L. et al. (2013). Relations Between Housing Characteristics and the Well-Being of Low-Income Children and Adolescents. *Developmental Psychology* 49(9): 1775-1789 (2013) doi: 10.1037/a0031033.

⁴ Ziol-Guest, K. & Kalil, A. (2014). Long-Run Impact of Residential Moves in Childhood on Adult Achievement [Conference paper]. Society for Prevention Research 22nd Annual Meeting.

⁵ Coley, R. L. & Kull, M. (2016). Cumulative, Timing-Specific, and Interactive Models of Residential Mobility and Children's Cognitive and Psychosocial Skills. *Child Development* 87(4): 1-17. doi: 10.1111/cdev.12535.

⁶ Coley & Kull, 2016

⁷ Chetty, R., Hendren, N. & Katz, L. (2016). The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project. *American Economic Review* 106(4): 855-902. doi: 10.1257/aer.20150572.

⁸ Diamond, R. & McQuade, T. (2016). Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development [NBER Working Paper No. 22204]. National Bureau of Economic Research. Available at <https://www.nber.org/papers/w22204>.

⁹ Freedman, M. & Owens, E. G. (2011). Low-income Housing Development and Crime. *Journal of Urban Economics*, 70(2): 115-131. doi: 10.1016/j.jue.2011.04.001.

¹⁰ Woo, A. & Joh, K. (2015). Beyond Anecdotal Evidence: Do Subsidized Housing Developments Increase Neighborhood Crime? *Applied Geography*, 64: 87-96. doi: 10.1016/j.apgeog.2015.09.004.

¹¹ United States Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. (1998). Ancillary Services to Support Welfare to Work: Housing Instability. Available at <https://aspe.hhs.gov/report/ancillary-services-support-welfare-work/housing-instability>.

¹² March, E. et al. (2011). Behind Closed Doors: The Hidden Health Impacts of Being Behind on Rent. Children's Healthwatch. Available at http://childrenshealthwatch.org/wp-content/uploads/behindcloseddoors_report_jan11-.pdf

than-good health, and almost three times more likely to have depressive symptoms.¹³ On the other hand, residents of well-constructed and well-maintained affordable housing have reduced instances of asthma, pest-borne illnesses, lead poisoning, accidental injury, and other health risks associated with substandard housing.^{14,15}

Roughly 10.2 million children and their families living in unstable housing incurred \$8 billion in avoidable health care and education costs in 2016. Adjusted for inflation and projected increases in health and education costs, that will result in \$111 billion lost over the next 10 years.¹⁶ In contrast, stable housing improves health and reduces health care costs. A study of nearly 10,000 individuals in Oregon found that provision of affordable housing decreased Medicaid spending by 12 percent as a result of fewer emergency room visits and lower medical expenditures.¹⁷ Other housing stability initiatives, including rental and foreclosure assistance, have also been found to positively impact mental health outcomes.^{18,19,20}

The many benefits housing brings to educational attainment, health care outcomes and costs, community vitality, and economic growth are largely unrealized in the face of the growing shortage of affordable housing nationwide. While the housing shortage exists across all income segments, it is most acutely felt by low-income households. This crisis impacts every state in the nation, urban as well as rural communities. As housing costs continue to rapidly outpace wage growth, families have struggled to make ends meet. Construction costs, particularly labor and materials, have risen dramatically since the Great Recession. Meanwhile, federal resources for producing housing have stagnated or, in the case of HOME and CDBG, declined. HOME funding cuts from 2011 to 2016 reduced HOME production of affordable homes by 60 percent. While recent increases to the HOME appropriation are a positive step, the FY 2019 appropriation is still 32 percent below FY 2010 levels.

The housing shortage affects both potential home buyers and renters. For many low- and moderate-income borrowers, purchasing a home is the best opportunity to build wealth. Yet these families face significant challenges as they seek to achieve home ownership. Even as the housing market strengthens, many creditworthy home buyers find themselves priced out. In particular, first-time buyers, many of whom entered the job market during the Great Recession with student loan debt, struggle to obtain mortgages they can afford and to accumulate adequate savings for a down payment. According to the

¹³ Affordable Rental Housing A.C.T.I.O.N. (2018). Improving Health with the Low-Income Housing Tax Credit. Available at <https://static1.squarespace.com/static/566ee654bfe8736211c559eb/t/5b27e2ee1ae6cfbd62fc76e2/1529340655884/LIHTC+and+Health+%28HR.+1661%29+Final.pdf>.

¹⁴ Taylor, L. (2018, June). Housing and Health: An Overview of the Literature. *Health Affairs*. Available at <https://www.healthaffairs.org/doi/10.1377/hpb20180313.396577/full/>.

¹⁵ Cohen, R. (2007). The Positive Impacts of Affordable Housing on Health: A Research Summary. Center for Housing Policy and Enterprise Community Partners. Available at http://www.housingpartners.com/assets/creating_change/http_app.brnto.pdf.

¹⁶ Población, A. et al. (2017, July). Stable Homes Make Healthy Families. Children's HealthWatch. Available at <https://www.ncsha.org/wp-content/uploads/2018/08/Children-Healthwatch-What-If-Report.pdf>.

¹⁷ Wright, B. et al. (2016). Health in Housing: Exploring the Intersection between Housing and Health Care. Center for Outcomes Research and Education (CORE) and Enterprise Community Partners. Available at <https://www.enterprisecommunity.org/download?fid=5703&nid=4247>.

¹⁸ Simon, A. E. et al. (2017). HUD Housing Assistance Associated with Lower Uninsurance Rates and Unmet Medical Need. *Health Affairs*, 36(6). Available at <https://www.healthaffairs.org/doi/10.1377/hlthaff.2016.1152>.

¹⁹ Tsai, A. C. (2015). Home Foreclosure, Health, and Mental Health: A Systematic Review of Individual, Aggregate, and Contextual Associations. *PLoS ONE*, 10(4). Available at <https://doi.org/10.1371/journal.pone.0123182>.

²⁰ Taylor, L. (2018, June). Housing and Health: An Overview of the Literature [Policy brief]. *Health Affairs*. Available at <https://www.healthaffairs.org/doi/10.1377/hpb20180313.396577/full/>.

National Association of REALTORS®, first-time home buyers accounted for only 33 percent in 2018, compared to the 40 percent historical average.²¹

As more and more people turn to the rental market, they find a severe shortage of affordable apartments. Nearly half (48 percent) of renters in the U.S. pay an excessive share of their income for housing. This cost burden is most profound for those earning the least. Of those renter households with annual incomes of \$15,000 or less—approximately equivalent to working full-time at the federal minimum wage—83 percent pay more than 30 percent of their income for housing and 73 percent are severely cost-burdened, meaning they devote more than half of their income to housing.²² This leaves little money for other critical necessities like food, transportation, childcare, healthcare, and utilities.

Apartment homes available to extremely low-income (ELI) households, those earning 30 percent or less of Area Median Income (AMI), are especially scarce. Out of 11.2 million ELI renter households nationwide, only 4 million rental homes are affordable and available to them, leaving a gap of 7.2 million needed homes. The rental shortage worsens as hundreds of thousands of new renters enter the market each year, while countless affordable units are lost from the nation's housing stock due to demolition, obsolescence, and conversion to market-rate units.²³

Adults 62 and older make up a large portion of renters struggling to pay their rent. A full 54 percent of older adult renters are cost-burdened, with 30 percent experiencing a severe cost burden (most of whom are in the oldest age group). While many older adults with mortgages also face cost burden, most get relief as they pay off their mortgages. Older renters, on the other hand, see their housing costs rise as they age.²⁴

North Carolina is no exception to these national trends. Nearly half of all North Carolina renters are cost-burdened and over 21 percent of homeowners are severely cost-burdened.²⁵ A full-time worker would need to earn \$16.35 an hour to afford the average Fair Market Rent on a two-bedroom apartment and a minimum wage earner would have to work 90 hours a week to afford the same apartment.²⁶

All 100 North Carolina counties have a shortage of homes affordable to families making 80 percent AMI or below. Statewide, for every eight low-income families, only one affordable home is available.²⁷ This has been exacerbated by back-to-back hurricanes that have ravaged our state, hitting areas that already had extreme housing shortages and older housing stock. The housing lost to these devastating storms cannot be easily replaced: a decades-old home valued at \$40,000 costs far more to replace in 2019 dollars.

²¹ Lautz, J. et al. (2018, October). 2018 Profile of Home Buyers and Sellers. National Association of REALTORS®. Available at <https://www.nar.realtor/sites/default/files/documents/2018%20HBS%20Highlights.pdf>.

²² United States Census Bureau. (2018). Tenure by Housing Cost as a Percentage of Household Income in the Past 12 Months, American Community Survey 5-Year Estimates. Retrieved from <https://factfinder.census.gov/>.

²³ Aurand, A. et al. (2018). The Gap: A Shortage of Affordable Homes. National Low-Income Housing Coalition. Available at https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2018.pdf.

²⁴ Molinsky, J. (2018, September 21). Older Adults Increasingly Face Housing Affordability Challenges. Joint Center for Housing Studies of Harvard University. Available at <https://www.jchs.harvard.edu/blog/older-adults-increasingly-face-housing-affordability-challenges/>.

²⁵ United States Census Bureau. (2018). Tenure by Housing Cost as a Percentage of Household Income in the Past 12 Months, American Community Survey 5-Year Estimates. Retrieved from <https://factfinder.census.gov/>.

²⁶ Aurand, A. et al, 2018

²⁷ United States Department of Housing and Urban Development. (2018, June). Comprehensive Housing Affordability Strategy [CHAS] data, 2011-2015 [Dataset]. Available at <https://www.huduser.gov/portal/datasets/cp.html>.

Dramatic population growth in our metro areas has sent land costs skyrocketing, increasing the price tag on apartments and homes and further burdening lower-income families struggling to make ends meet. Our rural areas have witnessed a steady aging of housing stock and a shortage of affordable options. Over the last year, the North Carolina Rural Center conducted listening sessions in the state's 80 rural counties. Affordable housing was named as a top priority in every county.

This housing crisis is multi-faceted and there is no single solution. As such, the North Carolina Housing Finance Agency (NCHFA) employs a range of resources to address the myriad needs.

For example, our Agency sells tax-exempt Mortgage Revenue Bonds (MRBs) to finance low-cost mortgages and down payment assistance for lower-income first-time home buyers. Nationally, MRBs have made first-time home ownership possible for over 3 million lower-income families. Using MRBs and other resources, we have helped more than 115,000 North Carolinians purchase homes.

We also assist first-time home buyers by investing HOME funds in community-based home ownership programs. Each year, NCHFA helps more than 300 families realize the dream of home ownership through these programs. The impact of this work extends well beyond home buyer households by stabilizing neighborhoods and drawing private investment into local communities.²⁸

Our largest community home ownership partner is Habitat for Humanity. HOME is our primary source of capital for Habitat for Humanity affiliates in both metro and rural areas, which lowers their fundraising burden and reduces mortgage payments for homeowners. One local affiliate reported that accessing HOME funds from our Agency has doubled their annual production. According to Habitat for Humanity International, HOME is the single most important federal resource for affiliates nationwide.

HOME funds are also used to rehabilitate existing homes. This stabilizes communities with aging housing stock and can yield significant health savings by keeping low-income senior and disabled homeowners, including veterans, in their homes and avoiding costly institutionalized care. A recent analysis found that every dollar spent on home repairs like this can yield as much as \$19 in Medicaid savings for the state of North Carolina.²⁹ Community Development Block Grant (CDBG) funds can also be used by states and local governments to make critical home repairs and help pay the infrastructure costs of single-family developments.

HOME is a critical funding source to couple with the federal Low-Income Housing Credit (LIHTC), the principal vehicle for creating and preserving affordable rental housing. HOME makes LIHTC development feasible in rural communities where rents are not high enough to cover building costs and repay development loans. In urban markets, subordinate HOME loans allow for rents that are affordable to much lower-income households.

Housing Bonds also help LIHTC extend its reach. In conjunction with LIHTC, bonds have produced nearly 1 million apartment homes affordable to lower-income families nationwide. In 2018, our Agency

²⁸ North Carolina Housing Finance Agency. (2018). The Impacts of Community-based Affordable Homeownership Programs. Available at https://www.nchfa.com/sites/default/files/page_attachments/HOC%20Impact%20Brief%20FINAL.pdf.

²⁹ North Carolina. Housing Finance Agency. (2017). Urgent Home Repair: Quality of Life and Cost Impacts. Available at https://www.nchfa.com/sites/default/files/page_attachments/URPPolicyBrief.pdf.

awarded a record amount of tax-exempt bond volume for LIHTC apartments—more than \$300 million—which will more than double the affordable units that would have been financed by LIHTC alone.

Our Agency also utilizes the National Housing Trust Fund with LIHTC to create rental units with a deep income target to serve ELI households with disabilities. In North Carolina, the state's Targeting Program requires LIHTC developments to set aside 10 to 20 percent of units for persons with disabilities. This program, which is a partnership between our Agency and the state Department of Health and Human Services, lowers housing barriers faced by people with disabilities by creating a referral pipeline into affordable apartments for eligible individuals. A companion program called Key provides rental assistance to make these units truly affordable to people with extremely low incomes.

LIHTC is the nation's leading producer of affordable rental housing. In North Carolina, the LIHTC portfolio is approaching 100,000 units and has been put to work in our state's smallest rural communities and largest metro areas with equal success. These investments have created apartment communities worth more than \$7.5 billion and have supported more than 137,000 jobs statewide.³⁰ The National Association of Home Builders estimates that LIHTC creates about 150 total jobs per 100 housing units and leverages up to \$1.91 in additional private and public capital for every \$1 invested.³¹

LIHTC development revitalizes low-income neighborhoods, boosting home prices 6.5 percent, lowering crime rates, and attracting racially and income diverse populations.³² These credits have enhanced more than 280 urban and rural communities in North Carolina and can save up to \$3 in health care costs for every \$1 invested for those who are disabled and have supportive service needs.³³

CDBG is also an important tool for the creation of LIHTC developments. While not part of the permanent debt structure, CDBG can be used to defer development costs by paying for site preparation, sewer and water infrastructure, and sidewalks.

All of our programs are over-subscribed. In the LIHTC program alone, we are only able to fund one out of every four applications. Despite the successes of LIHTC, the current allocation levels limit our ability to address the ever-growing imbalance between demand and supply by financing new construction and preserving aging affordable housing stock. Expanding the LIHTC and providing states with more flexibility would allow us to maximize our resources.

In addition, funding federal resources like HOME, CDBG, and Section 8 at adequate levels and granting flexibility in their usage would better leverage the LIHTC platform and enable us to address a range of housing needs and reach our most underserved citizens and communities. Strengthening Housing Bonds would allow us to generate more mortgages for first-time home buyers and produce more affordable apartments.

Federal funding is vital to the work of Housing Finance Agencies across the country, allowing us to leverage private market resources to address the most urgent housing needs for our most vulnerable

³⁰ North Carolina Housing Finance Agency. (2018, May). The Impact of the Low-Income Housing Tax Credit in North Carolina. Available at https://www.nchfa.com/sites/default/files/page_attachments/LIHTCPolicyBrief1.pdf.

³¹ Wardrip, K., Williams, L., & Hague, S. (2011, January). The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature. Center for Housing Policy. Available at <https://providencehousing.org/wp-content/uploads/2014/03/Housing-and-Economic-Development-Report-2011.pdf>.

³² Diamond & McQuade, 2016

³³ North Carolina Housing Finance Agency, 2018, The Impact of the Low-Income Housing Tax Credit in North Carolina

citizens. Given the impact that housing has on the local, state, and national economies and its influence on community well-being, educational attainment, and health care costs and outcomes, preserving and expanding successful programs is a worthwhile venture that promises to deliver an exceptional return on investment.

Our Agency is proud of what has been accomplished for North Carolina and its citizens through the use of LIHTC, Housing Bonds, HOME and CDBG. We thank Congress for entrusting us with these resources and pledge to continue investing them with efficiency and innovation to meet our state's housing needs.

Thank you for the opportunity to share our story.