



HOME 2.0: Modern Solutions to the Housing Shortage

Testimony of

Tiffany Bohee

President

Mercy Housing California

1256 Market Street

San Francisco, CA 94102

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## **Introduction: Leveraging the HOME Program to Address Our Housing Shortage**

Chairman Flood, Ranking Member Cleaver, and other distinguished members of the U.S. House Committee on Financial Services' Subcommittee on Housing and Insurance, thank you for the opportunity to testify during the Subcommittee's hearing entitled, "HOME 2.0: Modern Solutions to the Housing Shortage." My name is Tiffany Bohee, and I am honored to address you today on this important modernization effort. I will speak from my expertise as the President of Mercy Housing California, the largest regional affiliate of Mercy Housing, and a frequent user of the HOME Investment Partnerships Program to build new homes. In my two decades of community development experience in the public and private sectors, I have seen countless homes constructed and lives changed through this instrumental program. We are so grateful to Representatives Flood and Cleaver and to this committee for advancing bipartisan solutions to the housing crisis, which impacts every community across our country.

Mercy Housing is a national multifamily housing developer, owner, and manager with a portfolio of 346 rental communities including more than 25,000 affordable homes across 21 states. Mercy Housing is among the largest nonprofit developers of affordable housing in the United States, serving more than 40,000 people with low incomes. We are committed to creating affordable homes and thriving communities by developing, financing, and operating affordable, program-enriched housing. Our development efforts have leveraged the HOME program in high-cost urban areas as well as suburban and rural areas, to develop homes for families, veterans, seniors, and people exiting homelessness.

It is my privilege to share more about the lives that have been changed through the HOME Investment Partnerships Program, as well as voice Mercy Housing's recommendations to modernize and streamline this vital program while preserving its power and impact on rental housing. Nationally, Mercy Housing has leveraged HOME dollars to produce 111 multifamily rental communities inclusive of almost 8,000 affordable homes in 10 states. Just last year, we leveraged a HOME award of \$700,000 to recapitalize Timbercreek Apartments in Omaha, Nebraska, renovating the homes of 180 working families and ensuring that the apartment homes remain affordable for the long term. In Savannah, Georgia, HOME dollars helped us redevelop a 440-acre rental housing site into 484 modern homes where hundreds of families and seniors can thrive. In California, over the next few years, we will leverage committed HOME dollars to create new dignified homes for seniors to age in place in the small town of Davis, as well service-enriched housing for seniors in Oakland.

As a mission-driven organization focused on building communities where all residents can thrive, Mercy Housing shares this Subcommittee's goal of addressing our nationwide shortage of affordable housing. Modernizing and funding this critical program gives Congress a bipartisan opportunity to do just that. We were pleased to see the initial proposed changes to the HOME program released on July 2nd, focused on streamlining compliance requirements, bringing down costs, and making the program easier to use. We look forward to continued refinements to ensure that HOME can be used for those most in need.

The HOME Investment Partnerships Program is one of the only federal funding sources dedicated to providing gap funding for shovel-ready affordable housing. While Mercy Housing's multifamily affordable housing projects catalyze a great deal of private investment, including financing made possible by the Low-Income Housing Tax Credit (or "Housing Credit"), these federal HOME dollars still make up a critical piece of our funding stack. HOME is often the "gap funding" or "topper" that makes affordable housing deals feasible and helps us break ground and lease up our new homes in less time. We are encouraged by the expansion of the Low-Income Housing Tax Credit in the recent tax and spending bill and wish to emphasize that this expansion will be all the more impactful for working families and low-income people if programs such as HOME are strengthened and streamlined.

Because HOME funding is rarely the only source of funding for an affordable housing development, we recommend that this Subcommittee consider sensible streamlining reforms that make HOME dollars work more seamlessly with other kinds of funding. As a nonprofit, Mercy Housing does not take on this challenging work to enrich our staff or shareholders. Still, it is in the interest of the residents we serve, the communities in which we operate, and the taxpayers whose dollars we leverage to keep costs as low as possible while maintaining the quality and sustainability of our properties.

People often ask why affordable housing has gotten expensive to build, and the answer lies mostly in the complexity of our funding stack. Each affordable housing deal has six to eight sources of private and public funding, which adds significant time and cost. In fact, a recent study from the Turner Center demonstrates that adding an additional source of public funding adds \$20,000 per unit and four months to the timeline of being able to start construction of an affordable multifamily development. Modernizing the HOME program can help to reduce these inefficiencies, making deals less complicated and bringing much-needed housing to life in less time and for less cost.

To this end, we respectfully submit the following recommendations:

- **Save time by aligning the environmental review process.**

Use of HOME dollars triggers an environmental review process as dictated by the Code of Federal Regulations, Part 58, per the National Environmental Policy Act (NEPA). Conducting a thorough environmental review is a necessary step preceding all housing development, and for Housing Credit-financed affordable housing, there is a clear, standardized process for assessing environmental impact. This means that for developments primarily funded through Housing Credits, but which use HOME dollars to fill small funding gaps, the NEPA review process can be duplicative with existing environmental review and can add months to the development process without achieving any additional environmental goals.

At Mercy Housing, we also leverage HOME dollars to preserve existing federally subsidized housing, which can currently trigger a new round of NEPA review for properties that have already been assessed.

Additionally, the Choice Limiting Action rule means that potential subgrantees cannot proceed with certain necessary predevelopment activities such as acquisition, grading, or demolition while their HOME application is under consideration. We request that you consider revising this clause so that developments may proceed with certain choice limiting actions prior to commitments from Federal Housing Administration (FHA) lending programs and HUD programs such as HOME. Shortening the process so that NEPA can be completed more quickly would also make the NEPA prohibition on choice limiting actions less burdensome and reduce the impact that NEPA currently has on project progress and feasibility.

We appreciate the proposed changes that exempt some HOME-funded developments from NEPA review, so that we can align to one set of environmental regulations and use this funding more seamlessly.

- **Reduce complexity by using one set of regulations focused on tenants.**

As a mission-based organization focused on housing stability, Mercy Housing supports policies that give renters more choice and agency in their homes. We do, of course, comply with all federal regulations governing income eligibility, income recertification, tenant relocation, and other operational rules. As the program is currently structured, however, accepting even a modest HOME award triggers a different set of regulations for HOME-funded units than for the other apartment homes in our multifamily buildings.

This creates operational challenges, as residents living side by side are subject to different rules. A more effective approach would be to require that property

owners follow a single set of regulations based on the primary funding source, such as Housing Credit regulations, for each multifamily community.

- **Address building requirements that make HOME dollars hard to use.**

A multifamily housing development using HOME funds for twelve or more units is currently subject to Build America, Buy America (BABA) as well as Davis-Bacon regulations. These regulations add more cost and complexity to the development of affordable housing. Requirements that slow down housing production and drive up the cost of building multifamily rental homes are ultimately counterproductive to our nation's broader economic goals.

Unlike units financed solely with Housing Credits, which are exempt from BABA requirements, the use of federal funds such as HOME triggers BABA's domestic procurement requirement. For projects primarily funded through Housing Credits but with supplemental funding from HOME, these BABA requirements can increase the construction cost and thus require additional Housing Credits in order to cover the increase to the project budget. Participating Jurisdictions have reported that the existing requirements are confusing to interpret and would require clarification from the federal government to enforce.

As an example of the challenges we face, Mercy Housing is currently working to address a funding gap for a planned housing development serving working families and people with special needs in the Midwest. Our local Participating Jurisdiction has \$1 million in HOME funds that could be utilized for this development, but aligning to BABA requirements could increase construction costs so significantly it may not make mathematical sense to apply for these HOME funds. Similarly, we have determined that for a California development, compliance with BABA could add almost two million dollars to the total project cost. When we apply for HOME funds but need exemptions for some materials that are very hard to procure from American vendors, that entails relying on a waiver system, which introduces uncertainty and risk into the project and makes financing even more challenging. While we strive to support local businesses and use American-made products when possible, this can be cost-prohibitive. We appreciate the proposed statute change that would exempt HOME funding from BABA.

In terms of Davis-Bacon, we are stalwart in our support of labor and are committed to paying prevailing wages to partners in the trades in both high-cost and more rural areas. As a national organization, we have found that the application of Davis-Bacon has different impacts in different states and is particularly challenging in high-cost areas where communities are already rent-burdened. In some areas where we develop, there is not sufficient union

participation to comply with Davis-Bacon at our construction sites. We support the proposed statute change to apply Davis-Bacon to buildings over 50 units, which will make HOME dollars flow more seamlessly into our developments.

## **Conclusion**

In conclusion, it is our hope that advancing common-sense reforms to the HOME Investment Partnerships Program does not come at the expense of maintaining adequate funding and staffing for this transformational program. Countless lives have been changed for the better thanks to HOME dollars. As states and municipalities work hard to address housing shortages, we strongly urge the federal government to step up to support this goal, and to recognize the importance of high-quality multifamily rental housing for people who are not high-earners. Unlike Community Development Block Grant funds, which can be applied to a wide range of needs and are not often invested in workforce housing, HOME is the only federal block grant exclusively focused on providing housing for people with low and moderate incomes. It is absolutely essential that this resource be maintained.

Thank you for inviting me and I look forward to your questions.