**Testimony before the House Financial Services Committee Subcommittee on Housing and Community Opportunity regarding**

# "The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities"

**January 23, 2010**

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I am submitting this testimony on behalf of Minnesota Housing Partnership. We are a nonprofit organization that promotes affordable housing through public education and public policy advocacy. We also provide technical assistance and grants to support the efforts of Minnesota communities as they create and preserve affordable housing. Since our incorporation in 1989 we have provided assistance to more than 300 Minnesota communities and nonprofit agencies.

Since 1995 we have also been HUD's primary partner for the delivery of technical assistance in Minnesota, serving nonprofits and communities receiving HOME, Community Development Block Grant, and McKinney-Vento homeless program funding.

This working relationship with HUD carries over to our efforts to help communities respond to foreclosures. In 2009, Minnesota Housing Partnership led a three-agency consortium that was selected by HUD as one of nine national providers of technical assistance for the Neighborhood Stabilization Program.

The focus of my remarks will be the plight of renters in the current economy, which is characterized by tight credit, high unemployment, and decreasing capacity of state and local governments to intervene without support from the federal government. I will conclude by outlining what we believe are the most important steps the federal government can take to keep renters adequately and affordably housed.

## The economy and its impact on housing stability

We believe that for the last two years the primary housing challenge facing Minnesotans stems from the loss of income. Job losses and cut-backs have led to increased foreclosures, evictions, and increased homelessness.

The unemployment rate in Minnesota is now 7.4%. While Minnesota unemployment has closely tracked the national unemployment rate, we've done better than the national rate over the last several months. Still unemployment was only 4.8% two years ago, and since then, the number of unemployed Minnesotans has increased by nearly 60%, with 218,000 workers unemployed this past December. This does not include those who have quit looking for work, nor people working part-time because their hours have been cut.

*[Slide one, Minnesota vs. National Unemployment]*

While the foreclosure crisis was instigated by bad loans and loose money, inflating house prices to unsustainable levels, job loss is now the primary cause for people losing their homes. Fifty percent of those seeking assistance through Minnesota's foreclosure prevention counseling program reported that reduction or loss of income led to default on their home mortgages. In 2008 the Home Ownership Center, the sponsor of Minnesota's counseling programs, reported that 59% of those counseled had prime, fixed rate loans.

While safeguards against toxic loans have been put in place, defaults continue to increase in the weak economy. The delinquency rate is now about four times what it was in early 2005.

*[Slide two, Minnesota Mortgage Delinquencies & Pre-foreclosure Notices]*

It is more difficult to pinpoint the impact of the economy on renters. However, we have evidence that renters in "affordable" housing are having a hard time meeting their rent payment obligations. Our agency, in partnership with three of the state's largest nonprofit affordable housing developers, tracks late rental payments by tenants in nearly 5,000 units statewide. The latest data, from the third quarter of 2009, shows that 23% of their tenants are late on paying their rent by at least one month. Another indication of the impact of the economy on renters is that turnover of apartments has increased considerably in recent months.

*[Slide three, Tenants in Non-Luxury Units with Rent Past Due]*

At the extreme, challenges in paying mortgages and rents result in homelessness. Minnesota shelters are facing significant increases in use. Job loss, resulting is foreclosures or evictions, is increasingly being reported to shelter intake workers as the cause of homelessness. Furthermore, shelter use by people using shelters for he first time in their lives is up, and is another indicator of a tough economy. The number of families seeking shelter in Hennepin County-contracted shelters has increased by about 70% over the last 3 years, based on November counts.

*[Slide four, Hennepin Family Homelessness]*

Across the housing continuum the impact of the recession is felt as people fall behind in their housing payments. For too many, this economic downturn is leading to homelessness.

**Affordability trends for Minnesota renters**

Overall, almost half of Minnesota's renters pay more than 30% of income for housing. More than one in five renter households pays more than half of their income for housing, which means these families struggle to cover the costs of other necessities, such as food and transportation.

The impact of severe rent cost burden falls mostly on lower income households, particularly those with fixed income. Of renters who are paying more than half their income for housing, the majority, more than three-quarters in fact, are considered extremely low income. This means that a family of four would be earning less than $21,500 annually. Many of these families, of course, are on SSI or want to work but are un- or under-employed.

Over the long term the main culprit in the cost burden increase for renters is the divergence of income and housing costs. In Minnesota between 1980 and 2008 rents *increased* 19% while incomes for renters *decreased* 10%, stretching families increasingly over time.

*[Slide five, Median Rents and Renter Incomes, Minnesota]*

More recently, vacancy rates have been increasing, even for "affordable" units. In the Twin Cities, this is true both for apartments overall, as well units renting under $1,000 per month. The increased vacancy rates are likely due to families doubling up when they are unable to support themselves on their incomes. With higher vacancy rates, apartment owners have begun offering rent and amenity incentives to entice rental applications. Currently the apartments are out there, but people simply can't afford them.

*[Slide six, Twin Cities Rents & Vacancy Rates]*

Looking longer term, projected population growth and demographic changes, including increasing numbers of seniors, will require additional rental housing in the Twin Cities. The Twin Cities Metropolitan Council projects that for the 2011-2020 decade, the metro area will annually need 5,100 additional housing units affordable to households with incomes below 60 percent of median. But the current level of production of affordable housing is only about 1,000 units per year *statewide*.

Currently, more families are finding themselves unable to find jobs with decent pay, and subsequently not able to afford existing rental housing. This is leading to doubling up and, as well, increased homelessness. Without a significant change in resources for affordable housing production, many more families and seniors will struggle to cover housing costs and their other living expenses.

**Solutions**

Since loss and inadequacy of income is the most important reason people are losing their homes, a primary federal strategy to keep people sheltered must be to address the gap between what people can afford to pay and the cost of housing. This, of course, is most critical for extremely low income households where the gap is largest.

Minnesota has many excellent state and local housing programs and an impressive statewide infrastructure of public and private organizations delivering housing assistance and producing affordable housing. However, state and local governments face significant challenges in maintaining programs. For the current budget period state appropriations for housing declined 24% from the previous biennium, which was a $28 million cut. Just to maintain our current levels of housing production and support, Minnesota will need a significant increase in federal resources, though even these current efforts leave us further behind each year in addressing actual need.

I conclude my remarks by identifying steps the federal government can take to support what is being done at the state level. We need federal assistance to both create and preserve the supply of affordable housing and to provide additional rent subsidies, so that low income tenants can access apartments in the private market.

*Low Income Housing Tax Credit*

Minnesota, like other states, has most of its affordable rental housing capitalized through the Low Income Housing Tax Credit program. Through these tax credits Minnesota finances 1,500 units of rental housing production and preservation annually. With rents targeted to serve households with incomes up to 50% or 60% of median, it can be argued that the tax credit program does not help those most in need. But Minnesota has effectively used tax credit resources to provide affordable homes for extremely low income households, or those at 30% of median income. Recently, for instance, tax credits, along with additional assistance, funded St. Paul's 48 unit Lexington Commons, which provides housing exclusively to individuals who are chronically homeless, as well as Minneapolis' 45-unit Clare housing project, which houses people with HIV/AIDS.

As is widely known, with the collapse of the investment market, the Low Income Housing Tax Credit program is in trouble, since tax credit equity is hard to come by. The short term solution is to extend the tax credit exchange program, which was part of the Housing and Economic Recovery Act of 2008. The exchange program allowed states to exchange a portion of 2008 and 2009 tax credits for cash from U.S. Treasury. The exchange should be made available for both the 9 percent and 4 percent tax credits. Longer term, we need better incentives to encourage investors to acquire tax credits. Any rewrite of Community Reinvestment Act should include strong incentives for CRA-compliant lenders to invest in tax credit projects. Also, a restructuring of Fannie Mae and Freddie Mac should put these agencies, which were formerly key investors in tax credits, back into the tax credit market.

*National Housing Trust Fund*

The federal government must follow through with funding for the National Housing Trust Fund. The Fund also passed in 2008 as part of the Housing and Economic Recovery Act, and dedicates capital to building or rehabbing units for the nation's lowest income people. If the Trust Fund were funded nationally at $1 billion as proposed, Minnesota would receive approximately $14 million, as estimated by HUD. At $100,000 per apartment, this amount would create 140 sorely needed apartments. But we need even more.

Related to the trust fund, $65 million for project-based vouchers, an amount which has been proposed in conjunction to the trust fund, should also be funded. Even when capital costs for creating rental units are paid for entirely by charitable or public sources, ongoing monthly operating costs cannot be covered by rents from the lowest income renters. In Minnesota the operating costs for a two-bedroom apartment run about $500 monthly. With tenants paying the standard of 30% of their gross income for their apartments, a tenant must earn at least $20,000 annually to cover operating costs such as maintenance, utilities, insurance and taxes. Owners of properties who serve at affordable levels any households with incomes below $20,000 need some subsidy in order to break even.

*Section 8, Housing Choice Vouchers*

About 30,000 Minnesotans utilize the Section 8 Housing Choice Voucher program, in which tenants pay about 30% of their income to rent basic apartments, with the unaffordable portion of the rent covered by a voucher payment. While this program is a lifesaver for many families who might otherwise be homeless or unable to meet basic needs, many more vouchers are needed. The number of low income Minnesota renter households who are cost burdened exceeds the number of vouchers by more than ten times.

We need an effective, efficient voucher program. The Section Eight Voucher Reform Act (SEVRA) will help get us there. We look forward to the simplifications and rationalization in income determination, rental inspections, portability rules, and budgeting that the legislation will bring. Also, SEVRA authorizes 150,000 new rental vouchers nationally, a big step in the right direction.

*Preserving Existing Affordable Rental Housing*

Preservation of our existing rental housing is another area in which the federal government can have a large, positive impact on housing in Minnesota. We appreciate the step Congress took last year to ensure that the HUD public housing program has enough funding so that housing authorities that administer the program can meet their basic operating costs. After years of severe underfunding for public housing operations, this is of enormous benefit in preserving public housing. More resources, however, need to go toward public housing capital costs and improvements. The public housing stock is aging and the backlog of capital needs for Minnesota's public housing now exceeds $400 million. The state of Minnesota has prioritized preservation of the public housing stock by contributing $12 million to public housing rehab. But the state's resources fall far short of the need to preserve Minnesota's 20,000 public housing units.

Similar to public housing, it is critical that the state preserve the affordability and function of other federally assisted housing. Legislation is needed to facilitate use of project-based Section 8 assistance to preserve properties, to offer purchase rights to preservation-minded purchasers, and to enhance tenant protections and participation in preservation decisions.

**Conclusion**

The harmful impact of the poor economy on the ability of people in Minnesota to afford their housing is likely to continue for the next several years. State and local government and private philanthropic resources are declining, and unable to fill the affordability gap. Minnesota, of course, is not the only state in this situation. We join those in other states who look to the federal government to provide resources and leadership to stem the tide in rising foreclosures, evictions, and homelessness, and to provide hope to those of us who cannot meet the cost of housing.

Chip Halbach, Minnesota Housing Partnership, Testimony to the Subcommittee on Housing and Community Opportunity, January 23, 2010/ 21/2010