

Dissenting Views on H.R. 2895, National Affordable Housing Trust Fund Act of 2007

Increasing the availability of affordable single and multifamily housing is essential to the goal of expanding rental and homeownership opportunities for low-income families, but the creation of a new bureaucracy, as envisioned in H.R. 2895, to address this problem is not the most efficient and effective use of government resources. While we share the Majority's commitment to meeting the affordable housing needs of lower-income Americans, we differ on how best to achieve that goal.

Siphoning money from Fannie Mae and Freddie Mac and the programs administered by the Federal Housing Administration (FHA) to pay for a National Affordable Housing Trust Fund would translate into a tax on middle-income homeowners seeking to purchase a home or refinance an existing mortgage through FHA. Also, we believe that decisions regarding the creation and preservation of affordable housing are best managed through state and local housing trust funds rather than through a new federal bureaucracy. A new trust fund would require HUD to devise and administer a new set of rules and regulations, diverting resources and time away from its other established affordable housing programs.

Indeed, it is worth remembering that HUD already administers over 30 separate federal programs designed to promote affordable housing opportunities for low-income Americans--including Section 8 vouchers and the Community Development Block Grant (CDBG) program--and that these programs consumed the bulk of HUD's \$35 billion budget during the last fiscal year. The trust fund outlined in H.R. 2895 is modeled in large part on one of those HUD initiatives--the HOME Investment Partnership Program (HOME).

In fact, the trust fund in H.R. 2895 is so similar in its core requirements (i.e., rent structure, income targeting, affordability periods, etc. to the HOME Program that it prompts the question why it is necessary to create a new federal bureaucracy to administer essentially the same program. A better idea would be to run this program as a 'set-aside' within the existing HOME Program. This set-aside would operate through the HOME administrative structure, but would have additional requirements imposing deeper targeting, longer use restrictions, etc. Because 50 states, 585 local governments, and four insular areas currently administer HOME, the administrative structure to manage the trust fund as part of HOME already exists. Making the trust fund part of HOME would simplify administration of the program, as well as substantially reduce 'start-up' time for the new program.

Establishing a new Housing Trust Fund and promulgating new regulations and rules at HUD, on the other hand, could take months or even years to properly implement. Like all new programs, the stand-alone Trust Fund program would have very low expenditure rates until local staff come to understand the new program--which was the case when the HOME program began in 1992. Rather than reinventing the wheel, a better approach would be to take this opportunity to make an already successful federal program work better by using HOME to increase production and preservation of mixed-income housing units, which would make rental housing affordable to very low and extremely low income families. HOME has been operating effectively for over 15 years, and because participating jurisdictions already understand the HOME program, there would be no learning curve for implementation.

In addition to opposing the creation of a huge new federal program, we seriously question the wisdom of establishing a

National Housing Trust Fund paid for primarily by assessments on the GSEs and the surplus generated by the FHA program. Most Republicans believe that when it comes to meeting the affordable housing needs of our very low-income citizens, there simply has to be a better way than imposing what amounts to a middle-class mortgage tax on the millions of Americans whose mortgages are financed by the GSEs or diverting funds from an FHA program that seeks to create homeownership opportunities for low- and middle-income Americans.

In essence, using funds generated by the FHA surplus would result in a redistribution of funds from one segment of the population to another, by using fees paid by low- and moderate-income homeowners to subsidize other housing activities. Many Members on this side of the aisle question whether this represents an appropriate use of the surplus generated by a government insurance program. A far better approach, in our view, would be to return that surplus to the intended beneficiaries of the program, many of whom are senior citizens with FHA-insured reverse mortgages, in the form of lower insurance premiums. In addition, diverting premiums from the insurance fund could also threaten the fiscal soundness and solvency of FHA, which was only recently removed from GAO's list of government programs at 'high risk' for waste, fraud and abuse. Moreover, current initiatives by the Bush administration and recently passed legislation in the House (H.R. 1852) contemplate a significant role for FHA in helping to transition subprime borrowers out of high-cost nontraditional loan products into more affordable FHA-insured mortgages. Diverting FHA funds to unrelated affordable housing programs arguably detracts from FHA's ability to serve this important function in a fiscally responsible manner.

Finally, we continue to be concerned about the distribution of the national affordable housing trust fund monies. H.R. 2895 includes a number of provisions intended to ensure that the funds are used for housing and are not misused or spent for other purposes, including: (a) a prohibition against any funds being used for a recipient's administrative costs or expenses, political activities, advocacy, lobbying, counseling, travel expense, or preparation or advice on tax returns; (b) limits to be set by HUD on how much grantees can spend on administrative costs; (c) a requirement that HUD establish program regulations, authority for HUD to audit each grantee's compliance, and a requirement that each grantee develop systems to ensure program compliance; and (d) authority for HUD to impose penalties on grantees that do not comply with requirements, including requiring grantees to reimburse misused funds. However, even with these safeguards, political considerations will inevitably enter into the grant process administered by state and local government agencies, creating the potential for the program to be used to benefit elected officials and reward their political supporters, whether those supporters be non-profit advocacy groups or for-profit industries.

In sum, no one questions the very real affordable housing challenges that lower-income Americans face, or the good intentions of the authors of H.R. 2895 in seeking to meet those challenges. However, creating a new federal bureaucracy is not, in our view, the best course for achieving that shared objective.

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