

**STATEMENT OF BRIAN D. MONTGOMERY**

Assistant Secretary for Housing – Federal Housing Commissioner  
U.S. Department of Housing and Urban Development

Hearing before the Committee on Financial Services

United States House of Representatives



“Affordable Housing Preservation: Lessons from Starrett City”

July 10, 2007

Chairwoman Waters, Chairman Towns, Ranking Member Shays, distinguished members of the New York congressional delegation, on behalf of Secretary Jackson, thank you for inviting the Department to testify on *Affordable Housing Preservation: Lessons from Starrett City*. We appreciate this opportunity to provide the Committee with the Department's position on Starrett City as well as our commitment to the preservation of affordable housing across the nation.

Starrett City has been a model housing effort. The development has allowed low-income families to find affordable housing in the city, to remain part of the city, to feel a sense of community and to grow with the community. It is for these and other reasons, our Administration and the Department remain committed to preserving this affordable housing.

With 14,000 residents, Starrett City is the largest federally-subsidized development in the country and is an essential affordable housing resource for the City of New York. We believe the proposed transaction threatens New York City's affordable housing market and those most in need of the housing. The Department recognizes that this sale is expensive to the developers and rents will have to be increased to cover the debt service. As a result, the sale could quickly displace most, if not all, who will have few housing options left in this tight market.

As you are aware, the Department rejected the initial request from Clipper Equity due to the lack of information needed to make an informed decision as to their capacity and experience to operate a development of this size.

The Department recently reviewed a revised proposal. Yesterday, the Department rejected this proposal as well. The Department continues to have serious concerns regarding Clipper Equity's organizational and financial capacity as well as their ability to sustain the development as affordable housing for the long term. The Secretary also met with over 100 residents of Starrett City in Washington a few months ago to listen to their concerns. From day one, the Secretary has made it clear that HUD's number one priority is preserving Starrett City as affordable housing. This remains our goal, and we will not waiver from it.

The need for preservation of our existing affordable housing stock cannot be overstated. In addition to the aging of the physical structures, preservation is challenged by:

- Escalating market rents in some areas;
- Rapid increases in operating expenses; and
- Regional demographic shifts include the aging population and people with disabilities.

We are pleased with the successes of HUD's programs that help preserve the affordable housing stock. To date, the Department has preserved the affordability of over 250,000 units nationwide.

But to assist HUD in doing more, our industry partners and elected officials from around the country have put forth legislation intended to address affordable housing preservation. While the Administration is still reviewing the legislation – H.R. 647, introduced by Congresswomen Waters and Pryce, and S. 131, introduced by Senators Allard and Reed – the reauthorization of the Mark-to-Market program is important. This program has preserved over 125,000 units to date. With a five-year reauthorization, we can expect to preserve an approximately 50,000 additional units.

In May of this year, the Department sponsored a national affordable rental housing symposium entitled, “Preservation: Now and in the Future.” We covered many topics and had a very productive dialogue with preservation experts and housing advocates. Some key issues discussed were the Section 202 refinancing rules and the need for clarification to have it be more effective tool; the one-for-one unit replacement policy and when it should be required; the need for resources (private, local, state and federal) to work together to preserve projects and mortgages maturing with no long term affordability or tenant protections.

The Department is pleased to report that a revised Section 202 refinancing notice is in its final stage of completion. The Department is also working on policy regarding the conversion of units (efficiencies to one-bedrooms) and the applicability of one-for-one replacement units when redeveloping and preserving a project. Both of these notices should be published within the next 90 days. It was also collectively concluded that we need to establish incentives for owners to maintain the housing as affordable for the long term, after mortgages mature or rental assistance contracts expire.

The Administration and Department are deeply committed to units financed using the Section 202 Supportive Housing for the Elderly Program. One initiative used to help in the preservation of these projects is the Emergency Capital Repair Program. Although legislation authorizing the capital repair program was approved under the American Homeownership and Economic Opportunity Act of 2000, funds were not appropriated to carry out the capital repair component of the legislation until FY 2004.

Many elderly projects are 30 years old or older and need a financial infusion of funding to correct situations that present an immediate threat to the life, health and safety of elderly tenants. These grants are given on a one-time basis, for emergency items that could not be absorbed in the project's operating budget. To date, the Department has awarded over \$30 million in grant funds for 139 elderly multifamily housing projects benefiting thousands of America's seniors.

Lastly, the Department is also committed to increasing the supply of new affordable housing in this country. The majority of affordable housing projects built today are financed, in part, with Low-Income Housing Tax Credits. The Department has begun an initiative to identify and address ways in which HUD's financing programs – FHA and Section 202 (elderly housing) and 811 (housing for disabled persons) – can work more effectively and efficiently with the Tax Credit Program. We are streamlining

our subsidy layering procedures and processing procedures in order to improve the timing of HUD approvals to meet Tax Credit program deadlines.

We are committed to working with the Department of the Treasury to achieve better coordination between the two agencies in administering these very successful affordable housing programs.

I would like to reiterate the Administration's and Department's commitment to the development and preservation of affordable housing. I enjoy visiting such vibrant communities as found here in Starrett City. Preserving these kinds of communities is one of our top priorities at HUD. That concludes my testimony. I would happy to respond to questions that you may have at this time.