

Statement by
Bill Fogarty
Director, Government Affairs
PENNSYLVANIA HOUSING FINANCE AGENCY

***SENATE URBAN AFFAIRS & HOUSING and SENATE VETERANS AFFAIRS &
EMERGENCY PREPAREDNESS COMMITTEES***

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I would like to thank Chairmen Wagner, Fontana, Vulakovich and Costa as well as Members of both the Urban Affairs & Housing Committee and the Veterans Affairs and Emergency Preparedness Committee for the invitation to meet with you today. I am Bill Fogarty, the Director of Government Affairs for Pennsylvania Housing Finance Agency (PHFA).

The committee has been provided packets that include my formal remarks and specific details of PHFA's involvement in each of your districts. In the interest of time, I will summarize my statement and briefly review a few of the programs noted in your packets. Lastly, I will provide comments on Senate Bill 38 and Senate Bill 227.

The Pennsylvania Housing Finance Agency is the Commonwealth's leading finance organization for affordable homes and rental apartments. It was created by the legislature in 1972 and its core mission is to finance affordable apartments and homes for older adults, low and moderate income families and people with special housing needs at minimal expense to the Commonwealth. It does this by utilizing the authority granted it by both state and federal law to raise revenue by selling taxable and tax-exempt securities.

Because of its ability to self-fund, PHFA does not receive any general fund appropriation from the Commonwealth for its programs or operations. The one exception, since 1983, has been a foreclosure abatement initiative known as the Homeowners' Emergency Mortgage Assistance Program (HEMAP), which PHFA administers for the Commonwealth. More recently, PHFA has been the recipient of a portion of the Marcellus Impact fees which it distributes to counties with producing unconventional gas wells to address the need for affordable housing.

Statewide, the Agency has provided over \$12 billion of funding for 161,000 single family mortgage loans, financed the construction or rehabilitation of 129,000 rental units and saved the homes of over 48,000 families from foreclosure.

Additionally, the financial strength of PHFA has allowed it to set aside more than \$411 million of its own funds to support its mission and leverage additional public and private sector investments in housing in Pennsylvania.

The Agency is governed by a 14 member Board of Directors. Four serve in an ex-officio capacity. They are the Secretary of Banking and Securities, who by law is PHFA's Chairperson, the Secretaries of the Departments of Community and Economic Development and Human Services, as well as the State Treasurer. The majority and minority leaders of the House and Senate have one appointment each. The remaining six members are appointed for six year terms by the Governor with the advice and consent of the Senate.

Agency activities can be broadly grouped into three areas: rental housing financing, homeownership financing and foreclosure abatement. Within each of those areas, PHFA provides a variety of assistance.

Rental Housing

PHFA works with both for-profit and non-profit developers to make affordable apartments available for the elderly, low income families and persons with disabilities. To accomplish this, it is necessary to bring together local, state and federal resources and PHFA's rental housing effort does just that.

Additionally, the Agency administers a program that is an essential element in affordable housing production today: Housing Tax Credits. These federal credits provide project sponsors with up-front capital to lower the cost of development and thereby the mortgage needed. By reducing the mortgage amount, monthly expenses are reduced making lower rents economically feasible. In return for this upfront subsidy, federal law requires that rents remain "affordable" for at least 15 years. In Pennsylvania, PHFA requires successful tax credit applicants to maintain affordability for a total of 30 years.

Each year, PHFA receives a housing tax credit allocation of approximately \$29 million which generates about \$285 million of private investment capital to help finance affordable rental apartments.

To date, the Agency has financed the construction or rehabilitation of over 129,000 affordable apartments in the Commonwealth. Most of these developments are privately owned and pay taxes to the communities in which they are located. They are well-maintained assets in their neighborhoods.

Homeownership

PHFA has helped 161,000 low-and moderate-income Pennsylvanians become homeowners. Its 30-year fixed rate mortgage products are available through participating lending institutions and combined, in many cases, with free homeownership counseling services.

For many lower-income families, the greatest impediment to buying a first home is having sufficient funds to cover the down payment and closing costs associated with the purchase. The Agency's homeownership programs overcome that obstacle by providing funding assistance to responsible applicants to help with these costs. Additionally, PHFA also limits the fees a lender can charge. PHFA mortgage funds are available for existing homes, as well as for newly constructed homes, to stimulate the economy and create jobs.

PHFA also offers employers a program that helps their employees better afford the cost of a home near their workplace. The Agency's Employer Assisted Housing (EAH) initiative offers employees of participating enterprises all the benefits of PHFA homeownership programs plus the potential for additional closing cost and down payment assistance. Many core community employees such as public safety personnel, health care providers, entry level employees, and unskilled laborers can benefit from the program. By helping employers address a key business concern----the cost of recruiting and retaining good employees---the program has a positive effect on turnover rates, absenteeism and tardiness, while lowering commuting times and accompanying stress.

In addition, PHFA funds accessibility improvements to make the homes of persons with disabilities more adequately meet their needs. Home improvement loans are also

available to make necessary repairs that improve a home's safety, livability, energy efficiency and compliance with local codes. Mortgage refinance programs are also available.

Funds for many of these programs come primarily from the sale of Agency bonds to investors throughout the United States and from Agency earnings, not from appropriations. The collateral for the bonds is the properties on which the mortgages are held. These PHFA securities, known as mortgage revenue bonds, are among the highest rated of their kind in the nation and currently carry a AA+ rating from Standard and Poors and a Aa2 rating from Moody's Investor Service.

The Agency also funds its mortgages through the sale of Mortgage-Backed Securities guaranteed by Ginnie Mae or Fannie Mae. Because PHFA enjoys access to various funding streams, it is able to offer the most attractive interest rates available as market conditions change.

All Agency loans are serviced in-house at PHFA's offices in Harrisburg using a proactive approach that incorporates debt and delinquency counseling, when needed.

The Homeowners' Emergency Mortgage Assistance Program (HEMAP)

Act 91 of 1983 authorized PHFA to develop the Homeowners' Emergency Mortgage Assistance Program to help certain homeowners who were in danger of losing their homes to foreclosure through no fault of their own. This change in PHFA's statute was brought about by an early 1980's recession which led to a large number of foreclosures, particularly in the southwestern part of the state. HEMAP provides loans to bring delinquent mortgages current and may also provide continuing help with mortgage payments. Total assistance may not exceed 24 months, except when unemployment in the Commonwealth exceeds a three-month running average of 6.5 percent. When that occurs, total assistance allowed is extended to 36 months.

The HEMAP program has traditionally been funded through state appropriations. Since inception, appropriations have totaled \$245,926,000, while loans have totaled \$546,373,688. The ability to make loans for more than twice the appropriated funds is due in large part to the 23,294 homeowners who have repaid their loans in full. In total, HEMAP has received \$296,653,996 in principal and interest repayments from homeowners who have benefited from the program.

To date, 48,290 homes have been saved from foreclosure.

HEMAP last received a state appropriation (\$2 million) in the general appropriation bill approved on June 30, 2011. In June of 2012, SB 1433 was approved (Act 70), which directed all payments received from a settlement reached between Pennsylvania's attorney general and five U. S. mortgage servicing companies be deposited into the Homeowner Assistance Settlement Fund. The Act directs a majority of the proceeds be used to help homeowners facing foreclosure and assisted by HEMAP. To date, HEMAP has drawn down \$54.6 million and will receive a final payment of \$5.4 million in July of 2016.

How HEMAP Works

If a homeowner's mortgage payments become 60 days or more delinquent, lenders are required to send the homeowner an "Act 91 Notice" noting the existence of the HEMAP program and directions on how to apply. The only mortgages not covered under the HEMAP law are those that are FHA-insured.

Homeowners have 33 days from the date of the Act 91 Notice to meet face-to-face with a consumer credit counseling agency, which then has 30 days from that date to get the application to PHFA. Over ninety counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders and other creditors in forbearance and loan modification negotiations.

Upon receipt of the application, the Agency has 60 days to render a decision of eligibility.

The Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE) and Marcellus Impact Fee Funding

The Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE) was established by Act 105 of 2010. It created a housing trust fund under PHFA and established a mechanism which delineated how any state or federal funds, as well as funds from other sources, would be used to support affordable housing in the Commonwealth.

The PHARE Act did not allocate any funding for the program. It did, however, outline requirements that include preferences, match funding options and a requirement to utilize 30 percent of the funds to assist households below 50% of the median area income.

Several years after passage of the PHARE Act, the Marcellus Shale impact fee law was enacted (Act 13 of 2012). It directed a certain amount of the impact fee revenue into PHFA's Housing Trust Fund to address the need for affordable housing in counties where producing unconventional gas wells are located.

Since the passage of the Marcellus Shale fee legislation, there have been four rounds of funding and \$34.6 million has been deposited into the fund and provided to over 100 community-based projects. It is expected that these funds will leverage another \$220 million in resources in the affected counties. A complete listing of approved proposals is available at: www.phfa.org/legislation/act105.aspx#PHARE.

New Markets Tax Credits (NMTCs)

The New Markets Tax Credit Program was established by Congress in 2000 to spur investment in businesses and real estate development in low-income communities. To take advantage of this federal program, PHFA, in 2004, established the Commonwealth Cornerstone Group, which is a Community Development Entity or CDE. Federal law only allows CDE's to participate in the program.

The Commonwealth Cornerstone Group allocates tax credits it is awarded to applicants seeking to spur business expansion and the development of urban mixed-use projects to assist in the redevelopment of neighborhoods and communities.

In total, the Commonwealth Cornerstone Group has received six New Market Tax Credit allocations from the federal government totaling \$271 million and has funded 25 proposals with its first five allocations thus far. For additional information on the program and specific details of each approved proposal, please visit: www.commonwealthcornerstone.org/.

Additional information about all PHFA programs can be found at www.phfa.org.

Senate Bill 38

SB 38 would establish a Veterans' Homeownership Assistance Program for any veteran who has served on active duty including certain qualifying reservists. Additionally, it would also provide assistance to a veteran's spouse in certain situations. The bill would provide down payment, as well as closing cost assistance for veterans who are first time homebuyers. Assistance is capped at \$10,000.

With regard to SB 38, PHFA would recommend that the assistance provided simply be capped at \$10k across the board for down payment and/or closing costs. Currently the bill caps closing costs at 5% of the sales price and down payment assistance at 20% of the sales price. Both are already capped in the bill at \$10,000. Also, closing costs are already limited in the bill to the total closing costs. This would allow PHFA to use the funds most effectively depending on what other grants or gifts the veterans already has.

Also, you may wish to consider just using the first time homebuyer requirement for the outright grant portion of the assistance and not the repayable deferred loans. Currently, the bill provides that only first time homebuyer veterans are eligible for any of the funding, whether it is a grant or a loan.

Lastly on page 3, line 18; it notes that the amount of the repayment shall equal 105 percent of the deferred loan amount. Having a repayment higher than what was borrowed may be considered implied interest, etc., and trigger some regulatory and/or underwriting requirements. PHFA recommends that it be removed from the bill.

PHFA does have experience with loans for veterans and could easily implement the provisions of SB 38. To date, it has provided more than \$400 million to fund over 5,000 mortgages for veterans. Of these, 3,140 were VA guaranteed. That means that the veteran took advantage of a federal program that allowed them to finance 100 percent of the purchase price. PHFA provided some type of closing cost assistance to help 457 of them get into the home. Assistance would have been, for the most part, closing cost help, down payment assistance or an access modification loan. PHFA currently provides, depending on need, 4 percent of the sales price up to a maximum of \$6,000 for down payment and closing cost assistance, which are structured as no interest loans. There is no set aside for veterans, however, and funds are limited.

Senate Bill 227

SB 227 would establish a Veterans' Housing Assistance Program for any veteran who has served on active duty including certain qualifying reservists, who has been identified by the Department of Military and Veterans Affairs to be homeless or at imminent risk of becoming homeless. The bill would provide for a menu of services that the Agency could provide to assist veterans including rental vouchers, whose subsidies would be capped at \$1,000 a month and limited to a year with extensions possible.

PHFA staff has the experience in rental housing and supportive services to implement such an effort working with the Department of Military Affairs. While the bill does allow PHFA to issue vouchers, the Agency appreciates the flexibility the bill provides to address the needs of the homeless or near homeless veteran population in Pennsylvania. This flexibility will allow PHFA to leverage the work of others to ensure the best use of any resources available.

As an aside, I would like to mention that the Agency's Housing Trust Fund, which is noted in my testimony above and is funded by drilling fees, has been used by two recipient communities, thus far, for transitional housing for veterans. One good example of how the housing trust fund money can be used to assist veterans is illustrated below:



Six units, 7,000 Square Foot Homeless Veterans Housing in Indiana County

The building above offers five, one-bedroom units and one that has two bedrooms. The facility is now accepting applications from veterans who are homeless.

Residents will pay their own utilities and \$50 per month in rent or 30 percent of their gross annual household income. Each unit comes fully furnished, courtesy of Operation Troop Appreciation, a Pittsburgh-based veteran's charity. All units are handicapped-accessible with carve-outs under the sinks and counter tops to enable a resident in a wheelchair to pull up and prepare meals or wash dishes. The bathrooms have anti-skid floors and roll-in showers.

The roughly \$1.2 million facility was funded with the help of the PHFA Marcellus Drilling Fee Trust Fund.

In that regard, I am pleased to report that a bill that the Urban Affairs and Housing Committee reported unanimously from committee will eventually drive flexible funding from another source into all counties of the state, not just the counties located in the Marcellus region. That bill was signed into law last week and is Act 58 of 2015. Funding is made available as the economy grows and the Real Estate Transfer Tax (RTT) Revenue coming into the state increases. The benchmark that has to be exceeded each Fiscal Year is \$447.5 million. Forty percent of any amount above that benchmark amount would go into the Agency's Housing Trust Fund for use throughout the state. The amount is capped at \$25 million per year. The Independent Fiscal Office has estimated that the RTT will generate \$426M in FY 2015-16, \$457M in 2016-17 with subsequent fiscal year totals estimated at \$486M, \$510M and \$532M in the 2019-20 Fiscal Year.

In closing, PHFA would like to compliment the work of Senator Williams and Senator Blake, as well as the other co-sponsors of this legislation and the committees, for focusing on the needs of Pennsylvania's veterans. Again, thank you for the invitation to meet with you today.