

*Testimony about*  
**House Bill 2445**  
*The Neighborhood Blight Reclamation and Revitalization Act*  
*by*  
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**PENNSYLVANIA HOUSING FINANCE AGENCY**  
*before the House of Representatives Committees on*  
**LABOR RELATIONS and URBAN AFFAIRS**  
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Chairman Belfanti, Chairman Petrone, Representative DiGirolamo, Representative Taylor, distinguished Members of the Committee, fellow witnesses, ladies and gentlemen. Thank you very much for the opportunity to present this testimony on House Bill 2445, the Neighborhood Blight Reclamation and Revitalization Act. I am Brian Hudson, Executive Director and CEO of the Pennsylvania Housing Finance Agency.

My agency was created by the General Assembly in 1972, and is charged with supplying the capital necessary to fund high quality, affordable housing for older Pennsylvanians, families of modest means, and persons with disabilities. From the beginning, the Agency has enjoyed the support of the Commonwealth's highest elected body in meeting the needs of its citizens to buy and rent good places to live, and it is grateful for that confidence.

To carry out this mission, PHFA has developed programs in three important areas to help your constituents. These are single-family homeownership financing, funding for multifamily rental housing development, and foreclosure prevention.

Homeownership program mortgage loans offer attractive, below-market interest rate loans along with closing-cost assistance for many buyers, home-improvement loans for accessibility or repairs, and refinancing loans to help prevent predatory lending.

On the multifamily side, PHFA provides direct loans and tax credits that allow developers to provide decent, safe and affordable rental accommodations that are critical to enhancing the quality of life for some of the Commonwealth's most vulnerable citizens.

PHFA's acclaimed Homeowners' Emergency Mortgage Assistance program help families avoid foreclosure, giving borrowers the valuable time they need to get back on their financial feet.

## **Housing, Jobs, and Community Stability**

The elements needed to make communities flourish are a sufficient, stable tax base, jobs, and housing that is affordable to those who live there. These elements are inter-related; jobs create demand for housing, good housing sustains a solid tax base and employment opportunities; housing construction and real estate sales create demand for goods and services, which creates more jobs, leading to additional housing demand and more community stability. To help stimulate this “construction-revitalization cycle” in the Commonwealth, the Pennsylvania Housing Finance Agency has developed numerous programs that are effective at addressing the core needs of a community, while making maximum use of limited resources.

### **Homeownership**

PHFA provides the financial opportunity for families and individuals to own homes of their own. Agency programs include first mortgage loans at below-market interest rates, downpayment and closing cost assistance, loans for accessibility improvements, re-financing of unaffordable mortgages, on-lot sewage system upgrade financing, and credit counseling. Funding for these programs is made available through a network of participating lenders, and loans that are serviced by PHFA. Because of this unique arrangement, the Agency can work with borrowers in the event of payment problems, thereby reducing the chances of homeowner default and foreclosure.

In addition, the Agency’s community revitalization initiatives, collectively called the Homeownership Choice Programs, encourage residential construction in urban areas and core communities by helping builders turn neglected neighborhoods into attractive places to live. They provide options for new construction and rehabilitation, blight eradication, and mixed-use development. Begun in 2001, these programs attract about seven dollars of outside investment for every dollar committed by PHFA.

### **Rental Housing**

PHFA’s rental housing programs offer development sponsors financing and tax credits to build and rehabilitate affordable apartment units across Pennsylvania. Because of the funding limitations, the Agency encourages the use of other public and private resources. PHFA-financed developments are monitored throughout their existence so that they remain safe, enduring and attractive investments in the Commonwealth’s housing stock. Residents receive the benefit of Agency-funded housing services programs to help them learn job skills, to take full advantage of locally operated programs, and to enjoy their advancing years with dignity. All the developments are privately owned and pay property taxes.

### **Foreclosure Prevention**

The Homeowners’ Emergency Mortgage Assistance Program is a nationally recognized measure that provides temporary, short-term funding to cure mortgage delinquencies. A revolving fund that uses state appropriations and loan repayments

for operation, it is one of the country's most successful and cost-effective homelessness prevention efforts, and a huge factor in encouraging neighborhood stability. In its quarter-century existence, it has saved the homes of more than 40,000 families.

Last fall, PHFA also instituted two mortgage re-finance programs, called REAL and HERO, to address the looming sub-prime and predatory lending crisis. PHFA continues to work to assist Commonwealth homeowners who became unwitting victims of that particularly heinous period.

A lesser known PHFA program is one that was instituted without the need for legislative action; it is simply the modification of loan terms for delinquent or near-delinquent borrowers who have Agency-financed, FHA insured loans.

Forty-two percent of the nearly 46,000 loans serviced by PHFA have FHA insurance, and some become delinquent because homeowners lose their jobs, have accidents, are crime victims, experience floods or other natural disasters, or encounter unusual medical expenses. Under the Agency's Mortgage Interest Rate Reduction Initiative, borrowers who are unable to make normal payments on their FHA-insured home loans can stay in their houses because the Agency reduces the mortgage interest rate to as low as one percent, without restructuring the mortgage. Lower interest rates decrease monthly payments, thereby lessening the financial burden on borrowers.

Such efforts are available to other lenders and loan servicers of FHA-insured loans, and could be instituted with no expense but significant effect to stabilize hard-pressed communities.

Unemployment, natural disasters, accidents, and illnesses can disrupt the ability of any homeowner to make mortgage payments. If the situation is bad enough, foreclosure, eviction, and homelessness result, with the attendant blight associated with abandoned buildings. For this reason, preventing foreclosure as a means of blight prevention is a high priority for the Agency.

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As is evident from this brief discussion, preventing blight and eradicating its existence is integral to all PHFA efforts. The overall investment the Agency has already made in this effort has reaped billions of dollars of additional private and public funding, and spurs other local and regional initiatives.

What is also painfully clear is that the demand for funding in all these programs is much greater than the capacity of PHFA, or indeed, any other single entity, to meet. That is why addressing blight and the harms that it represents is so critical, not only to the Agency, but to the cities, boroughs and townships of the Commonwealth that are at the forefront of this devastating problem. For that reason, I pledge the cooperation of the Pennsylvania Housing Finance Agency in helping develop the legislation

necessary to accomplish your purpose, and gladly offer the Committees and their staffs the benefit of my Agency's experience in this area.

To this end, the Agency is also assisting the Legislature as it considers establishing a statewide housing trust fund for the Commonwealth such as those already existing in a number of other states. Although this has been a topic of interest in Pennsylvania for many years, only recently has it gained the proper attention that such an issue deserves, and there is reason to believe that such a fund may finally become a reality.

A housing trust fund would stimulate the construction and sale of homes and apartments while promoting local development and blight eradication efforts that provide real benefits to a wide array of commercial, industrial, and community interests.

In closing, I would like to cite one example of how a blight remediation effort can work, based on PHFA's experience.

In 2001, in a section of East North Philadelphia known as "The Badlands", a non-profit group had a vision to revitalize the neighborhood. Blight of epic proportions characterized the area; vacant lots and deteriorating shells of abandoned buildings, narcotics dealing, violent crime, and an overwhelming aura of despair accompanied the blocks it described. However, with the help of a \$1,700,000 loan from PHFA's Homeownership Choice Program, leveraged by over \$6,500,000 in additional funding from other sources, 50 new homes built were built in the first reclaimed, formerly blighted area. These new homes all were sold prior to completion and, one year later appraised for 60 percent more than their original purchase price.

With a subsequent approval of funds from the Homeownership Choice Programs an additional 55 new homes have been built. They, too, were all sold prior to completion. This second HCP loan of \$2,700,000 generated more than \$9,000,000 million in additional investments. A third phase involving \$1,600,000 from HCP and leveraged funding of almost \$8,500,000 will build 35 more new homes in the neighborhood. A neighborhood shopping mall has been developed, along with other stores and businesses. Blight is being driven back across the area. The revitalization is dramatic. What was formerly "Badlands" is now "Pradera", a safe, decent, affordable and desirable neighborhood in which to live. Additional private development and investment is now underway, property values and home sale prices are rising; a complete reversal of life for the neighborhood and residents is evident.

On behalf of the Board and staff of the Pennsylvania Housing Finance Agency, thank you very much for the opportunity to speak to you today.