

Testimony about
House Bill 1776
The Housing and Economic Revitalization Act
by
William W. Fogarty
Director, Government Affairs
PENNSYLVANIA HOUSING FINANCE AGENCY
before the House of Representatives Committee on
Commerce
The Capitol
Harrisburg, Pennsylvania
November 10, 2009

Chairman Daley, Chairman Hess, Members of the Committee, fellow witnesses, ladies and gentlemen. Thank you very much for the opportunity to present this testimony on House Bill 1776, the Housing and Economic Revitalization Act. I am Bill Fogarty, Director of Government Affairs for the Pennsylvania Housing Finance Agency.

PHFA 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 mortgages offer attractive, below-market interest rate loans along with closing-cost assistance for many buyers and home-improvement loans for accessibility or repairs. Consumer counseling networks are also funded to assist homebuyers and homeowners throughout the Commonwealth.

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 Homeowners' Emergency Mortgage Assistance Program helps families avoid foreclosure, giving qualified homeowners the valuable time they need to get back on their feet financially.

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, on-lot sewage system upgrade financing, and credit counseling. Funding for these programs is made available through a network of participating lenders. All mortgages are serviced by PHFA in-house. Because of this, 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. 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.

PHFA has also instituted two mortgage refinance programs, called REAL and HERO, to address the sub-prime and predatory lending crisis. PHFA continues to work to assist Commonwealth homeowners who became unwitting victims of a variety of mortgage scams and predatory products.

House Bill 1776

The Pennsylvania Housing Finance Agency thanks Representative Bear for allowing it to provide comments early in the initial drafting process of HB 1776 last spring.

HB 1776 would establish within PHFA the Build Pennsylvania Fund. The proceeds of any money in the fund would be used to provide “rebates” to homeowners buying new and existing houses, as well as renovating a home or changing it from a multifamily unit back into a single family home.

The impetus behind this legislation is similar to that of the federal \$8,000 homebuyer tax credit which is available to first-time homebuyers who purchase a principal residence between January 1, 2009 and November 30, 2009—to stimulate the housing market. Debate in Washington continues on extending the homeownership tax credit program and it appears that it will be authorized beyond its November 30 deadline and expanded.

In that regard, PHFA has worked with its lender network to strengthen the federal tax credit in Pennsylvania by allowing qualified homebuyers to “monetize” the credit so that it can be available at closing. Without this so-called monetization, home-purchasers would have to file their taxes and wait for the IRS to send them a check. PHFA allows homebuyers of existing houses to receive up to \$5,000 of the \$8,000 tax credit and new construction buyers to obtain \$6,000. This is in the form of an interest-free loan, which is repaid when the homeowner receives their \$8,000 tax credit from the IRS. To date, over 1,300 homebuyers have taken advantage of this option.

Understanding the current financial pressure placed on all Commonwealth-funded initiatives in general, regardless of their merit, and that as of this date no funds have been appropriated for this initiative, I would like to offer the following comments regarding HB 1776.

PHFA has the in-house expertise and the relationships with the lender, builder and realtor communities to efficiently administer programs targeting the consumer homebuyer market, such as those proposed in HB 1776. If the Commonwealth were to find the funding to support such an effort, PHFA would administer its operation from any earnings it could derive from fund investments and would not charge any other fees for staffing the effort. The bill as presently written provides for this.

In its original draft form, HB 1776 was focused on new construction. Subsequent to discussions with various “stakeholders,” the proposal was expanded to include existing homes, renovations, and conversions of multifamily housing unit into a single family home.

In the changeover to include the other allowable uses, I believe the definitions became a bit disjointed. I would recommend the following changes:

1. Make "Qualified Primary Residence" a general definition that denotes the three types of home buying activities that would generate a rebate. In the current bill, a "Qualified Primary Residence" is the term used to denote new construction. This is confusing since primary residence is used throughout the bill and does not always mean just new construction. It would be better to use the term "Qualified New Construction" as the term that describes new construction. The definition PHFA uses for new construction is simply a "house that has never been lived in". This would allow builders to sell existing inventory with the larger rebate afforded new construction.
2. To further clarify the bill's language, I would recommend that "Qualified Renovation Project" be changed to "Qualified Additions and Property Conversions." "Qualified Renovation Project" is defined to mean two things: a project that costs no less than \$50,000 and adds additional square footage **OR** the conversion of a multifamily residence into a single family home. Since the first defined use requires additional square footage be added and the conversion does not, I believe this language makes it clearer that there are two allowable types of activities under this.
3. Define what a primary residence is for the purposes of this act so there is no confusion about it. The general qualification usually deals with the location where you spend the majority of your time each year. Other qualifiers that could be looked at include employment location, tax return address, banking relationship address, voting address, driver's license address and the property on which a person claims a property tax-exemption or mortgage interest deduction.
4. Establish a timeframe for how long someone must occupy the residence as a primary residence to keep the full rebate. The federal credit requires that it be repaid if the home ceases to be a principal residence within a 36-month period beginning on the purchase date.
5. Amend section 4(c) on page 3, line 20 by adding at the end of the sentence after the word "purchaser" "*or misrepresented the property as one that was not previously occupied.*" This would penalize and require repayment of the higher rebate afforded new construction. Currently the bill only penalizes someone who misrepresents that it is their primary residence.
6. Amend section 5(d) on page 3 by adding language that "*the Agency reserves the right to request*" a certification that a property has never previously been occupied. There may be other documents that the Agency receives that clearly provide evidence that a house is newly constructed or has never been lived in. This provision would allow PHFA to require a certification when it is needed but would allow for a reduction in paperwork where the Agency determines that it is not necessary.

Thank you very much for the opportunity to comment on HB 1776 today.