Statement of Susan Whetstone
Interim President-Executive Director
Connecticut Housing Finance Authority
Monday April 4, 2011
Before the Appropriations Committee

On Raised Bill No.1125
An Act Implementing Recommendations of the
Commission on Enhancing Agency Outcomes

Senator Harp, Representative Walker and Members of the Appropriations Committee,

I am grateful for the opportunity to comment on Raised Bill No. 1125 and its impact on the Connecticut Housing Finance Authority (CHFA) – specifically replacing CHFA and other quasi public authorities, the Connecticut Development Authority (CDA), Connecticut Innovations Inc. (CII), and the Department of Economic and Community Development (DECD) with a new entity – the Connecticut Economic Development Authority (CEDA).

CHFA strongly opposes Raised Bill No. 1125.

CHFA was created by the General Assembly in 1969 to alleviate the shortage of affordable housing for low and moderate income persons and families in Connecticut. It is a quasi-public authority that issues its own Federally tax-exempt mortgage revenue bonds to fulfill this statutory mission. The proceeds from these bonds are in turn used to finance affordable mortgages for low and moderate income, first time homebuyers and to fund the construction, renovation and extended affordability of rental apartment homes.

Since 1969 CHFA has issued $14 billion of such bonds to help over 125,000 low and moderate income households purchase their first home and financed the development of over 35,000 affordable rental homes. It has also leveraged every major federal and state affordable housing assistance program over this period. The $4 billion of CHFA bonds that remain outstanding, and new CHFA bond issues, are rated AAA. CHFA receives no appropriations from the State of Connecticut to support its lending programs and operations.

CHFA is also Connecticut's Federal Low Income Housing Tax Credit allocating authority. It allocates over $55 million annually in funding for the development of affordable rental homes.

All of these affordable housing activities also support economic growth in our State. Based on recent CHFA experience, each $1.00 invested in the development of affordable rental homes generates $1.52 in new economic activity and $0.13 in new revenue for the State.

Recommendations of the Commission on Enhancing Agency Outcomes propose replacing CHFA with a new economic development authority which will have a significant and immediate negative impact on access for low and moderate income families and individuals to affordable homeownership and the development of new affordable multifamily rental homes. These impacts are magnified by the timing of this proposal – offered when municipal public finance markets and housing bonds are experiencing historic levels of turmoil and uncertainty.

The proposed new CEDA would replace CHFA's decades of experience and acceptance in the marketplace at a time when financial markets are uncertain about both public finance and housing bonds, with a completely unknown entity. This means CHFA, as a strong independently rated AAA financial authority, would disappear. Its successor will not retain CHFA's AAA bond rating and it is unlikely that this new entity would be granted a financial rating for some time. As a consequence:

- Should the new entity be denied access to the capital markets until it is rated, financing for affordable single family home mortgages and multifamily rental home development could be unavailable for an indefinite period;

- Should the new entity be rated at less than AAA, it will incur increased borrowing costs for affordable housing. This would result in decreasing the availability of lower cost mortgage financing for affordable single family home mortgages and multifamily rental home construction.

    - This could result in a 1% increase in CHFA's borrowing costs that would reduce the amount that could be mortgaged for the development of affordable rental homes by more than $1,000,000 for each $10,000,000 borrowed.

Moreover, we believe the replacement of CHFA does not achieve or further the objectives contained in the Commission on Enhancing Agency Outcomes report. Specifically, the Commission recommends a reorganized economic development entity modeled after similar efforts in the states of Massachusetts and Virginia. However, housing finance agencies in Massachusetts and Virginia are independent entities uniquely focused on the provision of affordable financing almost identical to CHFA.

CHFA is a strong and independent authority that has helped tens of thousands of our residents obtain affordable homes and spurred economic activity which has helped provide needed employment and generated millions in state tax revenue.

Due to its long history of effective service and financial strength CHFA has managed to weather recent storms in the nation's financial and housing markets, maintaining its strong position and presence. CHFA is currently positioned to stay a strong asset available well into the future to continue to generate even more affordable housing, jobs and state revenue.

Raised Bill No.1125 places all of this in direct jeopardy.

For these reasons CHFA strongly opposes this bill.

Background on
Increases in CHFA's Borrowing and Business Costs

A 1% rate increase in CHFA's lending rates is not inconceivable. It will depend on how potential investors assess the risks associated with housing bonds issued from any newly constructed authority. In this new "replacement" authority, CHFA's rating as a housing finance authority would no longer exist so the impact would be significant. The costs of managing CHFA's outstanding debt could be expected to rise by 25 to 50 basis points plus additional capital charges. These costs also need to be borne by CHFA's borrowers. Additionally, this new entity would be an entirely new credit. It will need to be evaluated by credit rating agencies and a new rating established. This could take several months and the entity would not be able to issue bonds to fund programs until this process is complete.

Impact on First Time Home Buyers, on the Connecticut Market and on the Connecticut Economy

CHFA issues bonds to finance mortgage loans for first-time homebuyers and funds more than 1,900 home purchases each year. A 1% increase in the borrowing rate would add about $1,200 per year to the borrowing cost of a typical CHFA first time homebuyer, driving many low income and moderate income families out of the market. Many purchases that are financially feasible for a low or moderate income family in Connecticut today would no longer be possible, creating a negative ripple effect which begins with the family newly priced out of the markets and carries through Connecticut's struggling economy.

Clearly, the first losers in this scenario would be families suddenly priced out of the home market. Single family home ownership, a foundation for family stability and financial security, would suddenly be beyond their reach. These families, however, would not be the only victims. The sale of a starter home to one of CHFA's customers begins an important chain reaction through the economy as the first time home purchase can enable a series of subsequent home purchases and the economic activity associated with them – from real estate commissions, through furniture and appliance sales, to new home construction – as well as the tax revenue – conveyance, sales, local property, etc. – that is paid to Connecticut's state and local governments. In the current weak market these first time homebuyers are an even more critical factor.

Impact on the Availability of Rental Homes for Low and Moderate Income Individuals and Families

Each year, CHFA also funds the construction and rehabilitation of 500-1,000 affordable rental apartments in projects throughout the state. It issues bonds to finance some of these developments. A 1% increase in borrowing costs to CHFA, as in the case of single family lending, would increase mortgage rates for multi-family borrowers and therefore decrease their ability to create rental home opportunities for Connecticut residents of low and moderate income. Also as in the case of single family home financing, the negative impact of increased mortgage rates would first be felt by individuals and families in need of safe, clean and affordable housing. But this already vulnerable group would only be the first to suffer.

A 1% increase in multi-family financing costs from CHFA would reduce the amount that could be mortgaged for the development of affordable rental by over $1,000,000 for each $10,000,000 borrowed at current interest rates, creating funding gaps – the difference between the funds feasibly available for development and the development's financial needs – for apartment proposals that could only be filled by additional subsidies (no interest loans or grants) at a time when historically available subsidies have been reduced and, in some cases, eliminated.

The proposed replacement of CHFA would increase affordable housing borrowing costs for the new entity and would also decrease all of the outcomes described above at a time when these outcomes are important to Connecticut's economic recovery.

Other Adverse Outcomes to the State

CHFA has over $4.0 billion in bonds outstanding. It must actively manage this debt in light of changing market conditions, interest rates and mortgage prepayments. A lower bond rating for any successor entity would hamper its ability to manage this inherited debt, risking its financial strength and capacity to effectively fund programs.

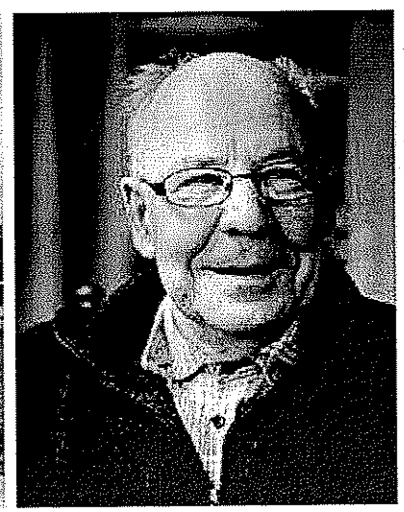
Also, as its $4.0 billion in CHFA's outstanding bonds are a direct contingent liability of the State, a lower bond rating for any successor entity to one lower than the State could raise concern for the State regarding this liability.

Finally, a significant drop in the bond rating of any successor entity would cause a drop in the value of billions of outstanding CHFA bonds held by Connecticut investors.



Connecticut Housing Finance Authority Case Statement



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Since 1969, CHFA has been alleviating the shortage of affordable housing for low and moderate income persons and families in Connecticut as a quasi public authority created by the legislature.

CHFA offers a range of financing programs to support homeownership for Connecticut's low and moderate income households and to create affordable multifamily rental homes for families, seniors and people with special needs.

CHFA issues federal tax exempt bonds and uses the proceeds to make mortgages affordable for low and moderate income individuals and families, as well as to finance the construction, renovation or extended affordability of multifamily affordable rental homes.

Connecticut's Affordable Housing Challenge

CHFA has issued $14.2 billion in bonds since 1969, enabling homeownership for over 125,000 low and moderate income Connecticut households and creating 35,000 affordable rental homes in the state. Including:

- On average, 30% of all single family mortgages go to minority homebuyers and 40% to single female heads of household
- 853 new rental homes with supportive services
- 125 group housing serving 553 individuals

Despite this success, housing is simply unaffordable for more than 400,000 low and moderate income households in Connecticut.

- 23% of Connecticut's working households spent more than 50% of their income on housing costs in 2009, representing a severe housing cost burden.

Connecticut's Affordable Housing Challenge

- In 69% of Connecticut's towns and cities, a family earning the median income could not qualify for a mortgage on a median priced home in that town or city.
- In 2010, a renter in Connecticut needed to work 2.8 minimum wage jobs in order to afford a 2-bedroom apartment, according to the National Low-Income Housing Coalition.
- Foreclosure filings in the state have increased 36% over the last 3 years, affecting 16,500 Connecticut homeowners.
  - In 2010 alone, over 22,000 Connecticut households were at risk of foreclosure
- Connecticut's current high unemployment rate and job losses place an increased number of individuals and families at risk of foreclosure or eviction.

Tools in Affordable Housing

CHFA provides affordable housing by:

- Issuing federal private activity bonds totaling a minimum of \$190,000,000 each year, which is available for single family home purchases and multifamily affordable rental homes.
  - Single family: Over the last 3 years, CHFA has funded over \$1 billion in mortgages to help over 6,500 first-time homebuyers in every town and city across Connecticut, including over 3,400 who could not have purchased without a CHFA down payment assistance 2nd mortgage.
  - Multifamily: These federal private activity bonds have been critical to CHFA's ability to leverage other public and private funding for multifamily affordable housing production

Tools for Affordable Housing

- **Allocating federal 9% Low Income Housing Tax Credits (LIHTC)**
  - Enabling nearly $55,000,000 of federal private funds, which are competitively awarded to developers of affordable multifamily rental housing developments each year
- **Allocating federal 4% Low Income Housing Tax credits to affordable housing developments financed with tax exempt bonds**
- **Housing Tax Credit Contribution (HTCC)**
  - Allocates $10 million in state tax credits to provide funding for affordable multifamily housing to non profit organizations
- **Serving as a conduit for federal funds**
  - American Recovery and Reinvestment Act (ARRA)
    - In the last 2 years, CHFA awarded over $92 million in federal stimulus funding to support the construction of affordable multifamily rental homes.
  - Section 8 rental subsidy program
    - Over $65 million flow to CHFA rental properties each year through federal subsidy contracts
  - Housing counseling services
    - Since 2008, CHFA has been awarded $325,000 by HUD as an approved housing counseling agency to provide pre-purchase counseling, foreclosure prevention counseling, as well as landlord counseling for purchasers of 2-4 family homes.
- **Providing state funded foreclosure prevention services**
  - The State made $30 million available to support emergency assistance loans for households facing foreclosure through the Emergency Mortgage Assistance Program (EMAP)
  - CHFA funds counseling for both pre-purchase homebuyers as well as for families and individuals facing foreclosure.

CHFA's 2010 Results

- Single Family Homeownership
  - Assisted 1,962 low and moderate income families to achieve first time homeownership and supported 1,029 of those with down payment assistance and counseling
- Foreclosure Prevention
  - Assisted 132 households facing foreclosure to remain in their homes through the State funded Emergency Mortgage Assistance Program (EMAP)
  - CHFA provided foreclosure counseling and mediation services to 1,672 individuals to help people at risk of foreclosure stay in their homes.
- Multifamily Rental Homes
  - Financed the construction of 500 affordable multifamily rental homes, of which 82 were supportive housing apartments
  - Extended the continued affordability for 811 elderly and multifamily rental homes

CHFA has been ranked #1 by Global Green USA for three consecutive years (2008 – 2010) for green building standards in affordable rental housing development

CHFA's 2010 Summary

Program Area	Homes	Funding (millions)	State Goal
Home Mortgages Programs	2,000	$319.6	2,700
Emergency Mortgage Assistance Program (EMAP) Loans	132	$8.7	
Multifamily Rental Homes Developed	500	$64.4	640
Extended Affordability for Multifamily Rental Homes	811	$44.5	
Totals Households Assisted	**3,443**	**$437.2**	**3,340**

CHFA was the recipient of the 2010 National Council of State Housing Agencies (NCSHA) Award for Supportive Housing Programs

CHFA's Double Bottom Line

In addressing the affordable housing needs of Connecticut's residents, CHFA's financing activities also benefit the state in these additional ways:

- CHFA's housing financing activity created 1,874 construction related jobs in 2010
- Job creation
  - Per every 1,000 affordable housing units developed, 1,257 jobs are created
  - Per every 100 units of occupied affordable housing, residents support approximately 30 jobs in various industries
  - Per every $1 million invested in affordable rental housing, 12 new jobs are immediately created (7 jobs in the construction industry, 5 in other industries)
- Stimulating economic activity
  - On average, each dollar invested in affordable multifamily development:
    - Produces $1.52 of new economic activity in the state
    - Produces $0.13 of new state revenue for the state
- Increasing state competitiveness
  - Affordable housing can impact an employer's ability to attract and retain employees

CHFA's Double Bottom Line

A 40 year reputation of financial strength has earned CHFA a AAA bond rating, enabling it to:

- Assure continued access to the bond markets
- Permit CHFA to borrow at favorable rates, enabling CHFA to offer first-time homebuyers access to lower cost financing
- Allow CHFA to borrow even in a difficult economic market
- Require no state appropriation or demand on the state's bonding capital for CHFA's programs