WRITTEN STATEMENT OF

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"H.R. 2930, SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY ACT OF 2007"

BEFORE THE

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U.S. HOUSE OF REPRESENTATIVES

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Chairwoman Waters, Ranking Member Biggert, and distinguished Members of the Subcommittee, thank you for the opportunity to testify on the efforts made by the Department of Housing and Urban Development (HUD) to address the housing needs of America's seniors. As the Subcommittee is aware, the Department has a long-standing history in providing affordable housing and delivering related services to one of the nation's most vulnerable populations, low- and very-low income seniors.

Recent studies highlight the overwhelming growth of this population and thus their corresponding affordable housing needs. It is important to note that there is an overwhelming amount of data proving:

- Baby Boomers will remain active and independent longer than previous generations;
- Many of them have wealth to manage retirement like no previous generation has; and
- As voters, they are going to challenge how America's seniors will be treated.

I am certain that this Subcommittee is well aware of senior population growth patterns so I will not recite those statistics. I will get right to the housing related facts.

Of the 21.8 million households headed by seniors in 2001, 80 percent were owners and 20 percent were renters. Approximately 73 percent of senior homeowners owned their homes free and clear. The median net worth of elderly households in 2000 was $188,885 compared to $55,000 for the total population. Eighty percent of seniors being homeowners may sound good, but the remaining 20 percent - or more than 4.3 million - are renters, and we simply are not producing the necessary affordable housing at a pace that adequately reflects their needs.

Our own data from 2003 estimates that there are over one million senior renters experiencing worst case housing need, generally defined as people without housing assistance paying more than half of their income for housing or living in severely substandard housing. In short, this nation is facing a shortage of housing assistance for our low-income senior citizens.

I am here today to talk about existing and potential housing opportunities for America's seniors, both for those who have the above-mentioned wealth, and more importantly for those who do not. Meeting the housing needs of America's seniors is one of our top priorities at HUD - and, as you will hear, we are creating new and innovative ways to achieve success.

To adequately address the housing needs of this growing population, it is estimated by the congressionally-established *Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century*, that an additional 730,000 rent-assisted units will be needed by 2020 to house seniors with housing problems (*cost burden*) age 65 and older.

Harvard University's report, *State of the Nation's Housing 2002*, found 8.4 million of the nation's 21 million elderly have incomes of less than $10,500 a year. The median income for a resident in a HUD Section 202 project is $9,480 and that resident is more than likely female. As you all may know, HUD's Section 202 program provides an important resource to address the housing needs of low- to very-low income seniors. However, the program in its current state only addresses a small percentage of senior housing needs. Consider this alarming fact: AARP estimates that there are ten seniors waiting for each Section 202 unit that becomes available.

The Section 202 program makes a significant contribution to addressing seniors' housing needs by providing affordable housing units, many with supportive services. Today's Section 202 program is, simply put, a capital advance (*or construction*) program with project rental assistance. The capital advance is provided without interest and does not have to be paid back as long as the housing remains available for the intended population for 40 years. Projects developed under the current program also provide supportive services dependent upon the needs of the residents.

However, the overall aging of the population and the commensurate need for senior housing has prompted HUD to make some changes in a variety of our programs, including Section 202.

I want this subcommittee to know that this Administration and HUD share your concerns regarding senior housing needs. We are committed to the ongoing viability of the Section 202 program.

Based on the funding appropriated each year, more than 20,000 new units of Section 202 housing units have been approved since 2003. The President’s proposed FY 2008 budget provides $575 million in funding for the Section 202 program. This is a net increase of $30 million more than last year's request. This funding will provide: construction of new units, congregate services, service coordinators, funding to convert projects to assisted living, and funds to renew and amend existing contracts.

In the FY 2008 budget, the Department proposed an innovative demonstration program aimed at increasing the production of Section 202 units. Between 1995 and 2005, we witnessed Section 202 production decline by approximately 40 percent despite relatively stable appropriations. One of the main reasons for the recent decline in development is that as rental assistance contracts expire, they are renewed from the same pot of funds that would otherwise be targeted toward development. In the future, as a larger proportion of the appropriation is taken up by rental assistance, there will be less available for new development.

To help stop the decline and, moreover, increase unit production, HUD's FY 2008 budget called for $25 million for a demonstration project that would seek to utilize housing tax credits and other housing resources (tax-exempt bond financing, HOME Program, private grants, etc.) to expand production under the Section 202 program.

It is commonly known that housing tax credits produce a vast number of units nationwide. In fact, according to the AARP study, as of 2003 more than 1.1 million units for low-income individuals and families had been produced using housing tax credits. It is our goal to take the positives from both and produce vastly more units with strong senior services components.

To prepare for this likely demonstration project, we have contracted with experts in the field (industry stakeholders, housing advocates, etc.) to look at various ways to improve the program. Some of the areas currently being researched include:

- Identifying ways to complete projects in a timelier manner, utilize various funding sources to expand the impact of the limited 202 dollars, and provide enhanced supportive services;
- Identifying and removing barriers in the Section 202 Prepayment and Refinancing Program to facilitate the preservation and rehabilitation of existing properties; and
- Identifying ways in which HUD can partner with other federal, state, and local agencies to leverage the Section 202 funds.

As I mentioned, we face two unique senior housing challenges: housing seniors of limited means, as I just addressed, and housing those with some level of accumulated assets.

HUD, through the Federal Housing Administration (FHA), has a reverse mortgage insurance program that targets senior homeowners. The Home Equity Conversion Mortgage, or HECM for short, is designed to enable senior homeowners to convert the equity in their homes into tax-free income. FHA-insured mortgages account for over 90 percent of the reverse mortgage market.

Homeowners who are 62 years or older and have a paid-up or low mortgage balance are eligible for a reverse mortgage loan. Many seniors utilize the income to supplement their Social Security, meet unexpected medical expenses or make home improvements. It is also an option for Baby Boomers nearing retirement, who realize they may not have enough income to provide for a comfortable lifestyle.

Seniors can choose to receive the proceeds from a reverse mortgage all at once as a lump sum, fixed monthly payments (for up to life), as a line of credit, or a combination of these. The most popular option - chosen by more than 60 percent of borrowers - is the line of credit, which allows you to draw on the loan proceeds at any time. The borrower is not required to repay the loan until he or she no longer uses the home as a primary residence.

The HECM program started as a demonstration program in 1990 and was seen as a true innovation in the mortgage industry, a way of helping seniors who were house rich but cash poor. The program became permanent in 1993.

Because FHA recognizes that seniors with considerable equity in their homes can be prime targets for predatory lending, we require that seniors considering a HECM loan receive counseling, and we have worked hard to ensure this counseling is of high quality.

According to demographic data on new HECM borrowers over the three years beginning with FY 2004, the median borrower age is 73. Half of the borrowers are between 68 and 78 years old. Another 25 percent are 79 and over.

The program once served primarily single women, presumably widows, who had very little or no income and nowhere to turn for help. These “house-rich, cash-poor” widows took out reverse mortgages to obtain money to live. The program was perceived as a last resort for individuals who had no alternative but to take equity out of their homes. What we are finding now is that the program has slowly shifted over the past decade, to attract more couples with higher incomes and more expensive homes.

Since FY 2000, when we insured just 6,600 loans, the HECM program has been experiencing double-digit growth each year. In FY 2005, FHA endorsed over 43,000 loans, representing a 14 percent increase over the prior year. In FY 2006, volume exploded: it increased by 77 percent to more than 76,000 loans. Endorsements continue to accelerate, and we expect to insure about 90,000 loans in FY2007. Despite this astounding growth, the National Reverse Mortgage Lender Association estimates these numbers represent two-percent of the universe of possible borrowers.

FHA uses underwriting criteria that allow us to operate the program without the need for appropriations of credit subsidy. Because of the long-term nature of these loans and the uncertainty that comes with projections of life expectancy and house price appreciation over such periods, we will remain diligent in assessing the credit risk associated with these loans.

The Department and our industry partners are excited about this growth. However, the current statutory limit on the number of loans FHA can insure is 275,000, which we reached on February 13 of this year. We worked with the Appropriations Committees to secure a temporary increase, but our ultimate goal is to lift the cap altogether. The program has been tested for over 15 years now and has proven to be not only successful, but a model for the reverse mortgage industry. We propose that the cap be altogether eliminated.

We have also proposed another legislative change that would permit HECMs for Home Purchase. One of the best ways to serve seniors well is to permit them to move to alternative housing, whether it's a senior community that offers appropriate amenities and services or simply a smaller, easier-to-maintain home. Our HECM program shouldn't just allow seniors to take cash out of their current homes, but should permit them to move to housing that better meets their needs as they age. A change to the statute would permit FHA to offer a HECM product that would enable seniors to purchase a home and tap into the equity in their old one in a single transaction.

I would be remiss if I did not point out in my testimony that there a number of programs within HUD, but outside of Office of Housing, that serve the housing needs of seniors. There is the Section 8 voucher program, 17 percent of which is utilized by people over the age of 62, and public housing, 32 percent of which is used by this age group. Together, these two programs represent more than two-thirds of the Department's overall budget. Also, both the HOME Investment Partnerships Program and the Community Development Block Grant are administered in a manner that provides state and local governments the flexibility to prioritize local needs, including increasing and supporting affordable housing units for low-income seniors.

In closing, I would like to reaffirm the Administration’s and HUD's commitment to aggressively seeking ways to better address the needs of this nation’s seniors – we owe them that. I have only touched on a few of the components of our senior housing strategy, but I look forward to having the chance to work with this Subcommittee in the future.

Thank you, I appreciate the opportunity to appear today and discuss these important issues.