



National Association of Housing and Redevelopment Officials

630 Eye Street, Northwest, Washington, DC 20001-3736 (202) 289-3500

Toll Free 1 (877) 866-2476

Fax (202) 289-8181

May 7, 2002

The Honorable Mel Martinez
Secretary
U.S. Department of Housing
and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Secretary Martinez:

As a national representative of housing and community development agencies who administer the HOME Investment Partnerships Program across the country, the National Association of Housing and Redevelopment Officials (NAHRO) is strongly opposed to the American Dream Downpayment Fund, which infringes upon state and local discretion and reduces the flexibility of this highly successful program unnecessarily. Not only does this Fund set aside funds for activities which are already eligible under the program, it does so in ways that will ultimately be harmful to communities attempting to meet the most pressing needs of their citizenry. We ask that you consider the following points of concern as you continue to work to meet the housing needs of communities.

The key to HOME's success has always been the discretion it gives to state and local HOME administrators to address what they determine are their most pressing low income housing needs. Participating Jurisdictions (PJs)—the states, localities, and consortia of local governments that administer the program—apply HOME funds to a wide variety of innovative programs and projects, including production of affordable housing, rental assistance, homeowner and rental rehabilitation, and down payment assistance to low income families. To deny states flexibility, discretion, and resources by requiring them to use a portion of their HOME funds for a federally prescribed purpose regardless of their needs is contrary to the spirit of HOME and the federalism to which this Administration is committed.

There is ever increasing, bipartisan agreement that affordable housing needs are best met by devolving resources and authority to states and localities, rather than centralizing decision making within the beltway at HUD. The Millennial Housing Commission, after extensively studying housing policy, will reconfirm this contention in its soon to be published report on affordable housing policy. HOME is a perfect example of why devolution is better than centralization. It works better than many other HUD programs because Congress designed it to allow states and localities, not HUD, to decide how best to respond to their

Kurt Creager, President; **Jim M. Inglis**, Senior Vice President; **Larry Cobb**, Vice President-International; **Larry A. Loyd**, Vice President Housing; **Terrence James Madigan**, SPHM, Vice President-Professional Development; **Marilyn Phillips**, SPHM, Vice President-Member Services; **Bill Pluta**, Vice President-Community Revitalization & Development; **Elizabeth B. Wilson**, Vice President-Commissioners; **Saul N. Ramirez, Jr.**, Executive Director

unique housing needs. States and localities, simply by virtue of their proximity to their communities' affordable housing needs, are better able to decide how they should spend their money than is the federal government.

This set-aside will likely slow reduction of worst case housing needs. According to Harvard University's Joint Center for Housing Studies' 2001 report, 14 million families have critical housing needs. Yet, indisputably, those families hardest hit are those with the least income. Of those 14 million families with critical housing needs, 80 percent are very low income, earning 50 percent of their area's median income (AMI) or less. Many of these families are not yet in a position to become successful homeowners, and even with significant down payment assistance risk defaulting on their mortgages. It is irresponsible to prematurely force these families into homeownership if it will further damage their credit and financial stability.

It is likely that down payment assistance within HOME will be targeted to the highest income bracket of HOME-eligible recipients—those making between 60 and 80 percent AMI—because these families are most likely to become successful homeowners. The set-aside's formula further intensifies this targeting by rewarding PJs for prioritizing homebuyer assistance over other activities that are more geared towards reducing worst case housing needs for extremely low income families. A down payment set-aside is not the best strategy for reducing worst case housing needs and could exacerbate those needs by directing funding away from those who need them most.

The set-aside formula punishes PJs with needs not prioritized by the Administration. Although Congress has yet to authorize the HOME down payment assistance set-aside, HUD has already determined its formula and state and local allocations of the \$50 million Congress appropriated for the program in FY 2002. Not only does the formula punish those PJs that have used fewer HOME dollars for homebuyer assistance in past years, it pushes PJs into using future HOME formula dollars for homebuyer assistance at the expense of locally determined priorities. Under the formula, eighty-three PJs would not receive any FY 2002 set-aside funding at all. Others receive only minimal allocations. Those PJs would need to redirect their HOME spending away from local priorities if they want to receive set-aside funds in the future.

The formula also bases set-aside funding on the number of units receiving HOME homebuyer assistance, not on a PJ's dollar commitment to homebuyers. Therefore, it makes sense for a PJ to give small amounts of aid to as many families as possible. This increases the incentive to assist more moderate income households who need less assistance than very low and extremely low income families.

The set-aside formula punishes PJs who utilize other funding sources to assist homebuyers. State and local government have worked hard over the years to develop their own housing resources to the greatest extent possible. Many of these funding streams are often for specific purposes, and in working to meet the needs of communities, PJ's match activities to their most restricted funding streams first. As a result, many PJ's utilize partnerships and other funding stream for homebuyer assistance, including Mortgage Revenue Bonds

and grants, leaving their HOME funds for rental and rehabilitation activities. The proposed formula does not consider this, and determines prior commitment based solely on how a PJ has used their HOME funds in the past. This policy punishes communities that have worked hard to leverage their resources and expand opportunities.

Downpayment assistance is already a HOME-eligible activity. PJs have always used HOME to fund down payment assistance. In fact, HUD's own FY 2001 Performance and Accountability Report shows that nearly 30,000 new homebuyer units were funded through HOME in FY 2001. This only further demonstrates that PJ's obviously don't need the federal government to direct them to assist homebuyers – they already are. In fact, since the program began, more than one quarter of HOME-assisted units received down payment assistance.

We appreciate your efforts to provide states and local communities with housing resources and commend the program's laudable homeownership goal. As a former Mayor, I myself certainly recognize the positive impact that homeownership can have on a community. However, this effort cannot be financed by setting aside funds meant to be available for states and communities to meet their own housing priorities.

Sincerely,

A handwritten signature in black ink that reads "Saul N. Ramirez, Jr." in a cursive style.

Saul N. Ramirez, Jr.
Executive Director