

**Shaun Donovan, Commissioner**  
**NYC Department of Housing Preservation and Development**  
**Hearing on the Housing Preservation and Tenant Protection Act of 2008**  
**House Financial Services Committee**  
**June 19, 2008**

Good morning Mr. Chairman, Ranking Member Bachus, and members of the Committee. I am Shaun Donovan, Commissioner of the New York City Department of Housing Preservation and Development. HPD is the nation's largest municipal housing development agency. While our mission – to promote quality housing and viable neighborhoods for New Yorkers – has not changed over the years, our challenges have changed dramatically. The crisis of abandonment that plagued many New York communities in the 1970's and '80's was solved by rebuilding neighborhoods, driving down crime and improving schools. We now face the challenge of affordability.

Congresswoman Velazquez represents a district that has undergone an enormous strengthening of the housing market. We were extremely supportive of her preservation bill, H.R. 44, and I am pleased that it is contained in its entirety in The "Housing Preservation and Tenant Protection Act of 2008".

There are about 250,000 assisted housing units in New York City, developed under three key programs: the Low-Income Housing Tax Credit program (64,000 units), HUD's multi-family portfolio (77,000 units), and Mitchell-Lama developments (115,000 units), our State financed affordable housing program. The programs that financed these units—developed decades ago for a different housing market—include expiring use restrictions.

The units represent a safety net of affordable housing for hundreds of thousands of New Yorkers, but the City is at risk of losing them from the overall inventory of affordable housing stock. Given the strength of the City's housing market, as the use restrictions expire in some of these developments, owners face great temptation to leave the programs and raise rents to market levels. In other cases, properties face physical deterioration so severe that units risk becoming uninhabitable. In both these situations, residents of these units face displacement when an owner either opts out or "fails out" of the program.

Mayor Bloomberg's expanded *New Housing Marketplace* plan, which aims to create and preserve 165,000 units over ten years, recognizes the need and the opportunity to focus on these units. Of the 73,000 units to be preserved under the plan, 37,000 are affordable assisted units with expiring uses and subsidies, and HPD has designed a series of initiatives that will allow the agency to achieve that goal. But the City, and cities like us across the country, can not preserve this resource on our own. We need the commitment and partnership of the federal government. That is why I am so pleased to be able to testify on the importance of the "Housing Preservation and Tenant Protection Act" of 2008.

The Committee's bill is a comprehensive set of measures to stem the tide of affordable housing loss. If enacted, it would give HUD and local governments new tools and the flexibility needed to maintain our stock of affordable housing. These tools are needed now more than ever. The problems in the subprime market have risen to the top of the national agenda. Homeowners and neighborhoods are threatened by this crisis and it has highlighted again the importance of having a supply of decent and safe affordable housing available to moderate and low income people. There is much in this bill to be applauded but my testimony will focus on those provisions which most directly compliment the work we are doing in New York City.

On June 2, 2008 Senator Schumer, Congressman Towns, Congresswoman Velazquez , Governor Paterson, and City and State officials announced that a deal had been reached with the owners of Starrett City to keep the development affordable. Starrett City, a nearly 6,000 unit project in East New York, is the largest federally subsidized project in the country. The owners' initial attempt to sell the development and opt-out of the various state and federal subsidies was met with public outcry and ultimately with HUD's rejection of the sale. The agreement reached with government represents a framework for preservation at Starrett that the buyer of the development will adhere to.

The plan covers State and City subsidies in the form of tax exemptions, mortgages and rent setting, but perhaps the most important part of the deal is on the federal subsidies there. Converting the Rental Assistance Payment contract to a project-based Section 8 contract is a lynchpin to preserving affordability at Starrett. We are very grateful to the Committee for including the Starrett City specific legislation in H.R. 3221. Passage of the Committee's bill would extend that possibility to the 470 other developments with these types of contracts.

There are around 35,000 units nationally that are covered by Rental Assistance Payment or Rent Supplement contracts. These subsidies, commonly referred to as "RAP" and "Rent Supp" are decades old antiquated programs. Unlike the newer project-based section 8 program that replaced them, RAP and Rent Supp contracts are not renewable. In the next twenty years all of these contracts will expire, and 35,000 units of affordable housing will be lost. The Committee's bill would rectify this problem by giving owners the option to convert their RAP and Rent Supp contracts to project-based section 8. In exchange for a commitment to longer-term affordability, the owners get the ability to mark rents to market, and the option to renew the contract. This is a very appealing option in high cost markets like New York and Boston but also in weaker markets, where termination of these contracts can lead to abandonment of properties and neighborhood decline. Furthermore, tenants get better protection because there are greater incentives for an owner to continue in the federal program, and should the owner choose to leave the program, the tenants are guaranteed a housing voucher that allows them to stay in their home.

Allowing enhanced vouchers, which are tenant-based in nature, to be converted to project-based Section 8 at the request of an owner is another significant preservation tool created by this bill. This is a good example of a low cost means to preserving thousands

of units of housing. In New York, the cost of an enhanced voucher is more than the cost of project-basing so for a fewer public funds we could create permanent housing. The provision includes important exceptions: this type of project-based voucher would not count against the 20 percent cap on the percentage of housing authority's funds that can be project-based or against the percentage of a project's units that can be project-based.

HPD is currently negotiating with HUD to purchase a portfolio of loans on multifamily properties. The sale would allow HPD to buy all the notes on subsidized properties being held by HUD in New York City. Instead of waiting for the properties to fall into greater disrepair and enter foreclosure for an opportunity to purchase them through a right of first refusal, this sale will allow HPD to purchase the entire portfolio and be proactive about the properties' preservation.

There are two impediments to the sale, both of which your bill addresses. HUD's valuation method for noncompetitive sales to units of local government changed two years ago, and effectively suspended the program. HUD is interpreting language contained in the Deficit Reduction Act of 2005 as requiring them to disregard the repair needs of properties and loans when valuing it for a competitive sale. This change has meant that HUD is asking above market price for properties. For example, Hunts Point I, a 125 unit development located in the Bronx, was offered to HPD at a right of first refusal for \$6.7 million. It sold at auction for \$150,000. Siloam House, a 25 unit development in Brooklyn was offered to us for \$4.4 million. The winning bid was \$250,000. The developments were purchased by non-profit preservation buyers, so the units were not lost. But it is risky to allow all of these properties to go to foreclosure sales; legislation, as contained in this bill, is needed to require HUD to fairly value properties and loans when selling to units of local government. In New York City alone, we believe we could preserve thousands of units of affordable housing if we were able to purchase properties and loans at fair market value.

Second, your bill includes amendments to the Multifamily Mortgage Foreclosure Act that are crucial to our being able to properly manage the subsidized loan portfolio. The Multifamily Mortgage Foreclosure Act gives HUD a range of tools, including the ability to perform non-judicial foreclosures. The amendments contained in this bill afford units of local government the same flexibility and are an important means of empowering cities to manage property disposition.

The Housing Preservation and Tenant Protection Act also has the important effect of providing additional resources for rehabilitation of HUD multi-family properties. It repeals the section of the Deficit Reduction Act which requires appropriations for upfront grants. These grants were made available from the FHA General Insurance Fund for repairs on HUD buildings once a unit of local government had taken possession. They were an important resource to fixing up properties that were in a state of disrepair when we acquired them from HUD. Properties acquired from HUD often have rehab needs of over \$100,000 per unit. Your bill also makes available recaptured IRP payments for the costs of repairing HUD properties. Together, these funds will go a long way to helping cities afford to preserve these properties.

The tenant protection provisions in the bill are very important and we are particularly supportive of expansion of the enhanced voucher program. HPD administers the fourth largest voucher program in the country. Of the nearly 29,000 vouchers HPD administers, 18% are enhanced vouchers. HUD's recent practice of replacing only occupied units – rather than all units lost in a conversion - with enhanced vouchers has led to a loss of affordable housing. The bill's correction of this practice is necessary. Furthermore, it is important to make these vouchers available to tenants in buildings with expiring mortgages. Currently, only tenants in building that pre-pay are eligible for enhanced vouchers. In all, we believe these provisions will provide thousands of low and moderate income people with a means for housing when owners opt-out or subsidies expire.

Thank you for the opportunity to testify before the Committee today. I look forward to answering any questions you may have.