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Testimony of Jeffrey J. Woda, President
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To: U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

Hearing on Housing and Economic Development Policy in Ohio
July 29, 2003
Martin Luther King, Jr. Performing and Cultural Arts Complex
Columbus, Ohio

Background and Experience

I would like to thank Chairman Ney, Congressman Tiberi, and the rest of the Committee for allowing me to provide you with my testimony today. My name is Jeffrey J. Woda, and I am the owner of The Woda Group, LLC ("TWG"). I grew up in rural Ohio, Belmont County, the son and grandson of homebuilding contractors. I left the area, became a CPA, and then returned "home" in 1990 to begin Woda Construction, Inc. Today, TWG specializes in the development, construction, and management of affordable rental housing, mostly in the rural areas.

You have heard or will hear testimony regarding the growing need for all types of housing in both the urban and rural areas of this country and specifically Ohio. You will be or have been provided statistics regarding the need for multi-family, affordable housing for lower income families and lower income senior households. My testimony will focus on affordable rental housing in the rural area. I will discuss funding problems for the rural area, actual development problems that we have encountered, as well as new ideas that I would invite this Committee to explore.

Our developments typically use federal and state funding programs as the financing sources. Financing sources used include the low income housing tax credit, historic credits, HOME funds, CDBG funds, US HUD mark-to-market funds, USDA Rural Development 515 ("RD") direct funds, and RD 538 guaranteed funds. Other state, Ohio Housing Trust Fund ("OHTF"), local, and private banking (i.e., Federal Home Loan Bank) sources have also been utilized. We have financed new construction developments as well as rehabilitation developments all over rural Ohio using various combinations of the above sources to make a developments become reality.

Existing Rural Funding including HOME and HUD

Funding for affordable rental housing in the rural areas from approximately 1980-1994 was provided by RD through its 515 direct loan program. The 515 program provided developers with a 50 year, direct loan and often times a rental assistance contract for a portion of the units (50%-100%). This subsidized financing source allowed developers to create affordable rural housing in areas where development costs exceeded the amount of conventional debt that could be supported by the low rents that could be sustained in the rural area. The developers then could sell, or syndicate, the tax benefits to investors and after 1986, sell the low income housing tax credits generated. Until 1994, the program provided $20-$25 million annually for Ohio for new housing production and existing housing preservation, as well as new rental assistance. Since 1994, the amount allocated to Ohio has been $4-$5 million per year, with only about $1.2 million allocated to new production, and practically no new rental assistance. The balance has been used for preservation. Obviously, there is a much greater need than this funding source is providing.

Another program we have worked with is the HUD mark-to-market program. Currently, we are rehabilitating two communities financed with a HUD 221(d)(4) guaranteed loan and a housing assistance program ("HAP") contract. The housing communities are 33 units and 20 units, respectively, in two of Ohio's poorest counties. We proposed used housing tax credits, HOME. and/or OHTF funds, and other state loan programs as the source for a complete rehabilitation for each community. HUD was asked to merely implement their proposed restructuring plan where the debt would be replaced with HUD lower interest debt, and the HAP contract rents would be lowered to reflect market rents in those rural communities.

The proposal sounds simple. The red tape and problems we have encountered related to differences in policy between various federal and state agencies are too numerous to list here today. We are proposing to completely rehabilitate collateral of a U.S. HUD loan with sources other than those of HUD, yet we have conflicting rules with other federal programs. Due to the fact the debt carries a below market rate interest, the IRS doesn't allow a normal rehabilitation credit. If we ask HUD to raise the interest rate to satisfy the IRS, we then must obtain the approval of the Assistant Secretary of HUD which, we have been told, would take so much time, our commitment for tax credits would expire. We proposed paying off the HUD debt, however, if we do so, we will lose the HAP contract and those tenants most in need would lose that subsidy source. It is apparent that we are frustrated with the process.

Currently, the main source for financing rural rental housing is the low income housing tax credit. We have been fortunate that Ohio also uses a portion its HOME allocation as well as its Ohio Housing Trust Fund dollars to supplement the credit enabling our developments to reduce their levels of permanent debt which allows for lower rents which is critical in the rural area where the area median gross incomes are much lower than the urban areas. Most of the areas we work in are not participating jurisdictions so our HOME funds are administered by the State of Ohio. The State of Ohio does a great job at administering these funds, however the regulations are cumbersome and inconsistent with the other financing sources. We have also been able to combine the RD 538 guarantee with housing tax credits. Our industry colleagues have also been able to utilize what little RD 515 funds are available for some new rental housing creation. These programs alone do not serve the lower income rural residents without a deeper subsidy and other changes to the programs noted herein.

Recommendations

The RD Section 515 funding needs increased. Rental Assistance could be changed so tenants have a minimum rent due to further spread the available dollars and provide new developments with Rental Assistance. Another change which would leverage those funds and double the production with the same dollars is for the allowance of the federally subsidized debt with the 9% housing tax credit. Currently, the IRS only allows the 4% credit with the 515 debt. RD doesn't allow a 515 loan without the interest subsidy. Again, these are two federal agencies which could work together to greatly increase affordable rural housing production.

The RD Section 538 guarantee program is much different from the RD 515 program. Whereas the 515 is a direct federal loan, the 538 is an insurance policy that USDA provides to the lender insuring 90% of the loan amount. This program is somewhat new and is picking up popularity in the private sector. Currently, RD provides interest credit for 20% of its annual allocation. The interest credit buy down lowers the effective permanent loan rate for the development to the applicable federal rate which is comparable to the 10-30 year Treasury rates. This buy down greatly assists in lowering rents. RD should have authority to offer interest credit for more than 20% of its allocation and should have the flexibility to offer rental assistance with the 538 guarantee in the most rural areas. This would much less costly to USDA than the 515 program as much of the development dollars are from the private sector.

The National Housing Trust Fund ("Fund") may be another avenue which could assist the rural areas. A portion (40%) of the Fund should be earmarked for the rural area as defined by USDA Rural Development. The Fund could provide not only capital subsidies but also operating support comparable to the RD 515 Rental Assistance. This program should be administered by RD as no other federal agency has a better understanding of the rural housing market.

Currently, county median incomes for tax credit purposes use the greater of the county area median gross income adjusted for family size ("AMGI") or the state non-metro average AMGI. It would widen the band of eligible rural households greatly if this was changed so counties could use the state average AMGI. A rural household consisting of a single parent and one child in Ohio earning in excess of $24,300 or an elderly single earning in excess of $21,240 in many rural counties is considered ineligible for tax credit housing. We have to widen the band of eligible households.

Finally, the home ownership tax credit is an excellent concept for the rural areas. Private sector developers need incentives to venture into areas where AMGI's and real wages are so low. Please keep in mind, not all households are ready or meant to be home owners. This would not decrease the need and demand for affordable rental housing as well.

Conclusion

Again, thank you for this opportunity and I would be happy to answer any questions.