

Written Testimony of Kathleen Swift, Senior Vice President, Heritage Bank and President of the Pacific NW Chapter of the Women's Affordable Housing Network

I am writing in support of HB 5011 for the Appropriation of General Fund to Housing.

Director Bell of OHCS and her staff have arrived at a well considered budget request that balances between Affordable Rental, Homeownership and Stabilization of the existing portfolio statewide. There are never enough funds to fill the need, and yet, we must do all we can to house our working poor, our senior citizens, our veterans, and our disabled citizens. Not providing this level in funding will result in greater levels of homelessness and will lead to the loss of existing affordable housing stock, if stabilization cannot be provided.

As a commercial lender of over 30 years in Oregon, the last 20 of which have been focused on Affordable Housing Finance and Nonprofit Safety-Net provider facility finance, I have a unique perspective of having seen the economic growth spurts, and downturns that our Oregon economy has experienced. What we face in 2025 – 2026 is far more dire, with disproportionate impact on our communities' most vulnerable citizens, both rural and urban, than any downturn we experienced in the 1980's, in the 1990's dot.com bust, during the Great Recession and during COVID.

Loss of employment, medical crisis not covered by insurance, and potential cuts in social safety net services will start impacting our citizens this year and will lead to a greater number of evictions and displacement out of the market rate housing rental units. Our affordable housing units and their owners, many of which are nonprofit entities without access to capital markets/investment, have been weakened by several years of "doing more with less," and an increasing demand from clients who have been "falling into" the need for affordable housing due to inflation in expenses, but not salary increases.

The proposed funding will provide that balance between new unit production and stabilization of affordable housing properties which were stressed by inflation, decreasing rents as more clients are falling in their income levels. Affordable housing rents have historically depended on a property having a mix of very low, low, and moderate income tenants to provide enough rental income (referred to as 30% AMI, 50% AMI and 60% AMI brackets) in order to cover the operating costs and loan payments of Principal and Interest held by banks such as mine. For the last two years, the nonprofit owners of these projects have had to use up their cash balances to feed their existing projects.

During the last several years these same sponsors of affordable housing have had to use their cash to rapidly grow the number of units using the wonderful funding that the State of Oregon through OHCS has been able to provide. We didn't know that the interest rates would rise so fast, and that inflation would be multiple years of 6% or greater for the expense impacts that make up the industry's Operating and Capital Expense. Construction costs in just the last 5-7 years have meant that a 75 unit building, requires almost twice the project financing that it did in 2017-2018. This is bigger than any one provider's perceived inefficiency or underperforming building.

Commercial Banks like mine are not able to lend at the very low interest rates we once did, because our cost of funds have increased. We must be able to make a fair return on our

shareholders' and our depositors' investment. We don't have the ability to take risks in underwriting that the "old way" of a low interest rate, low inflation rate, stable economy allowed.

The new unit production is very much needed, and stabilization of the existing portfolio is essential.

Thank you for your consideration.