

**COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
2012 Summary Statement and Initiatives
(Dollars in Thousands)**

HOUSING TRUST FUND	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2010 Appropriation .....	...	...	...	...	...	...
2011 CR .....	...	...	...	...	...	...
2012 Request	<u>\$1,000,000</u>	...	...	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$10,000</u>
Program Improvements/Offsets	+1,000,000	...	...	+1,000,000	+1,000,000	+10,000

NOTE: The 2010 and 2011 Budgets also proposed mandatory appropriations of \$1 billion for the Housing Trust Fund; however, an offset has yet to be identified.

Summary Statement

The Housing Trust Fund was established by the Housing and Economic Recovery Act of 2008 (Public Law 110-289). The purpose of the Housing Trust Fund is to provide grants to States: 1) to increase and preserve the supply of rental housing for extremely low- and very low-income families, including homeless families; and 2) to increase homeownership for extremely low- and very low-income families, limited to no more than 10 percent of each formula allocation. The authorizing statute provided a dedicated source of funding for the Housing Trust Fund through annual assessments on the government-sponsored enterprises, Fannie Mae and Freddie Mac; however, these assessments have been suspended due to the housing and foreclosure crisis.

The 2012 Budget proposes mandatory appropriations of \$1 billion for the Housing Trust Fund, fully offset within the Budget. These funds will be used to finance the development, rehabilitation, and preservation of affordable housing for very low-income residents. The Administration remains committed to funding the Housing Trust Fund and will continue to work with Congress to capitalize the fund.

Congress authorized the Housing Trust Fund with the stated purpose of increasing and preserving the supply of rental housing for extremely low-income (ELI) families with incomes between 0 and 30 percent of area median income and very low-income (VLI) families with incomes between 30 and 50 percent of area median income, including homeless families, and increasing homeownership for ELI and VLI families. HUD's periodic reports to Congress on worst case needs¹ for affordable rental housing document show that shortages of affordable rental housing for ELI and VLI families have grown increasingly more severe.

In 2009, the combined number of ELI and VLI renters with worst case housing needs reached an all-time high of 7.1 million. In the wake of the housing finance crisis and economic recession, the number of worst case needs increased by 20 percent from 2007 levels, and by almost 42 percent from 2001 levels. During the 2007-2009 period, the proportion of ELI and VLI renters with worst case needs increased from 37.0 percent to 41.5 percent, exacerbating the growth in the number

¹ A household experiencing worst case housing needs means that the household has an income at or below 50 percent of the area median income, receives no housing assistance, and has a severe rent burden (paying more than half of their income for rent) and/or lives in severely inadequate conditions (e.g., incomplete plumbing).

Housing Trust Fund

of ELI and VLI renters from 15.9 million to 17.1 million.

ELI renters are particularly burdened with severe housing problems. Most of the 3.6 million ELI renters who occupied affordable units in 2007 were able to do so only because they reported receiving government rental assistance, such as public housing, project-based Section 8 or Section 202/811, and the housing choice voucher program. Among ELI and VLI renters lacking housing assistance during 2009, 55 percent have worst case housing needs. The incidence of worst case needs reached 77 percent among unassisted ELI renters, compared with 33 percent among unassisted VLI renters. Because of their severe housing needs, in a recently published program rule for the Housing Trust Fund, HUD proposed direction of 100 percent of the funds to benefit ELI households.

Market failures truncate the supply of new, low cost rental units. In most of the nation it is infeasible for builders and housing providers to construct and operate a sufficient supply of rental housing that both enables them to service their debt and charge rents that are affordable to the ELI and VLI renters in the area. The result is that in 2009, for every 100 ELI renters nationwide, only 36 rental units were both affordable and available for rent or currently occupied by households in this income range. The shortage grew significantly worse because of the rapid increase in ELI renters between the years 2007-2009, so that 8 fewer units were available per 100 ELI renters in 2009 than in 2007. Vacancy rates have decreased while average rents have increased. The majority, 54 percent, of units that would have been affordable for ELI renters in 2009 were occupied by higher income households. For every 100 VLI and ELI renters together, there were only 67 affordable units available. The Housing Trust Fund will provide funds to produce additional units affordable to ELI and VLI households with the greatest need, thus increasing the supply and reducing the most critical component of the existing shortage.

Program Relationship to Strategic Plan Goals and Subgoals

The Housing Trust Fund will support one of the four subgoals under Strategic Plan Goal 1 (Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers):

Subgoal 1C: Create financially sustainable homeownership opportunities

Up to 10 percent of the funds may be directed at homeownership.

The Housing Trust Fund will also support three of the four subgoals under Strategic Plan Goal 2 (Meet the Need for Quality Affordable Rental Homes):

Subgoal 2A: End homelessness and substantially reduce the number of families and individuals with severe housing needs

Subgoal 2B: Expand the supply of affordable rental homes where they are most needed

Subgoal 2C: Preserve the affordability and improve the quality of federally assisted and private unassisted affordable rental homes

In a recently published proposed rule for the Housing Trust Fund, HUD proposed directing 100 percent of grant funds to be used to provide housing for extremely low-income households the first year. According to updated estimates, over time, the funding provided by the Housing Trust Fund in 2012 is expected to produce between 10,000 and 27,000 affordable units, depending upon the availability and use of leverage. These funds will assist states in housing their homeless, expanding the number of rental units, and preserving and renovating their current stock of affordable housing.

Housing Trust Fund

The Housing Trust Fund will support three of the five subgoals under Strategic Plan Goal 4 (Build Inclusive and Sustainable Communities Free from Discrimination):

Subgoal 4B: Promote energy-efficient buildings and location-efficient communities that are healthy, affordable, and diverse

Subgoal 4D: Facilitate disaster preparedness, recovery, and resiliency

Subgoal 4E: Build the capacity of local, state, and regional public and private organizations

The proposed regulations for the Housing Trust Fund promote energy- and water-efficient building and facilitate transit-oriented development. For example, all newly subgoal 4 constructed units will be Energy-Star compliant.

Program Priorities

Affordability problems have been exacerbated by the recession and the increasing demand for rental housing generated by the foreclosure crisis. At the same time, the freeze in the credit markets and the sharp reduction in demand for Low-Income Housing Tax Credits have greatly diminished the private capital available to improve and expand the supply of affordable rental housing.

Only about one in four families that are eligible for HUD/Federal rental assistance programs receives assistance. The number of families struggling to make ends meet in the face of severe rent burdens has increased substantially during this decade. One of HUD's critical strategic goals is to catalyze affordable rental housing. HUD envisions a strategic partnership that strives to address the persistent un-affordability of housing in three ways:

- Supplementing incomes via an enhanced commitment to rental vouchers;
- Preserving existing affordable housing through smart investments in public, Native American and assisted housing; and
- Expanding supply by capitalizing the new national Housing Trust Fund.

In addition, the Department believes strongly that the Housing Trust Fund, once enacted, can contribute towards energy efficiency and green retrofits. Increasing energy efficiency, reducing greenhouse gas emissions, and reducing dependency on foreign oil are priorities of the Obama Administration. HUD has committed to creating energy efficient housing as part of a broader commitment to supporting the development of inclusive, sustainable communities. Much of public housing portfolio was built before the advent of energy codes, and therefore does not have the level of energy efficiency that has resulted from more recent energy codes. The outdated HUD housing stock therefore has both environmental and affordability impacts. HUD will encourage states to use their Housing Trust Fund grants to build energy-efficient rental housing and to make their current housing stock more energy efficient. The recently published proposed rule for HTF allocation requires energy and water efficiency features in all projects undertaken with HTF funds.

Program Description and Activities

The Housing and Economic Recovery Act of 2008 directs the Secretary of Housing and Urban Development to establish and manage a Housing Trust Fund (HTF), to be funded with amounts allocated from Fannie Mae and Freddie Mac and/or any amounts that may be appropriated, transferred, or credited to such fund under any other provisions of law.

Housing Trust Fund

The purpose of the HTF is to provide grants to States: 1) to increase and preserve the supply of rental housing for extremely low- and very low-income families, including homeless families; and 2) to increase homeownership for extremely low- and very low-income families.

Grant amounts allocated to a State or State-designated entity are eligible for use, or for commitment for use, only for assistance for: 1) the production, preservation, rehabilitation, and operating costs of rental housing, and 2) the production, preservation, and rehabilitation of housing for homeownership, including such forms as down payment assistance, closing cost assistance, and assistance for interest rate buy-downs.

On December 4, 2009, the Department published in the *Federal Register* a proposed rule that would codify the allocation formula for the HTF. A second rule was published October 29, 2010, which proposed requirements and procedures for governing operation of the HTF. Comments were received by December 28, 2010. The following highlights key aspects of the proposed rules.

- **Allocation of Funds:** The proposed allocation formula includes the following factors: 1) the shortage of rental units both affordable and available to ELI renter households; 2) the shortage of rental units both affordable and available to VLI renter households; 3) the ratio of ELI renter households with worst case housing needs; 4) the ratio of very low-income renter households paying more than 50 percent of income on rent; and 5) the relative cost of construction. By statute, the each state will receive a minimum allocation of \$3 million.
- **Distribution of Assistance:** States or State-designated entities responsible for distributing HTF funds shall develop allocation plans based on priority housing needs, as identified in the State's approved consolidated plan, and in accordance with any priorities that may be established by HUD. The allocation plans must include a description of the eligible activities and a description of funding eligibility requirements, including demonstrated experience and financial capacity to undertake the activity and demonstrated familiarity with the requirements of any other Federal, State, or local housing program that will be used in conjunction with such grant amounts to ensure compliance with all applicable requirements and regulations of such programs. Funds for housing will go to recipients, which may be non-profit or for-profit developers or owners.
- **Accountability:** Each grantee's allocation plan must include performance goals and benchmarks, and HUD will evaluate the performance of each grantee at least annually. To further hold grantees and recipients accountable for ensuring HTF funds are used properly and efficiently, sanctions may be imposed on grantees and recipients that fail to provide proper oversight or misuse funds. All grant amounts must be used or committed for use within 2 years of the date that grant amounts are made available to the grantee; any amounts not used or committed within 2 years will be recaptured and reallocated.
- **Eligible Activities:** Grantees may use HTF funds for production, preservation, and rehabilitation of affordable rental housing and affordable housing for homeownership. This may be done through acquisition of property (including assistance to homebuyers), operating cost assistance and operating cost assistance reserves, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, real property acquisition, site improvements, conversion, demolition, financing costs, relocation expenses, operating costs of HTF-assisted rental housing, and reasonable administrative and planning costs.
- **Income Targeting:** For the first year of funding, 100 percent of the funds provided to rental or homeownership projects must be used for the benefit of ELI families (<30 percent of area's median income) or families with incomes at or below the poverty line. HUD will advise this percentage of funds in subsequent years, but per statute, at least 75 percent of funds must always be used for ELI families.

Housing Trust Fund

- Period of Affordability: Income targeting continues to apply throughout the HTF affordability period, which shall be 30 years. In rental projects, if a tenant becomes over-income, the HTF designation may float to another comparable unassisted unit in the project.
- Cost Caps: For rental housing, the grantee must establish annual maximum per unit amounts of HTF funds that may be invested in an HTF-assisted unit, with adjustments for the number of bedrooms and the geographic location of the project. This requirement will require that grantees focus on the cost per unit and ensure that these costs are reasonable. For homeownership, modest homeownership caps will be applied. New construction units must have an appraised value that does not exceed 95 percent of the median purchase price for the type of single family housing for the area. For acquisition with rehabilitation, the estimated value of the housing after rehabilitation may not exceed 95 percent of the median purchase price for the area.
- Energy and Water Efficiency Property Standards: Both rental and homeownership projects must have energy and water efficiency features. For new construction and gut rehabilitation projects *ENERGYSTAR* will be required for properties up to 3 stories or, for properties over 3 stories, ASHRAE 90.1-2007, Appendix G plus 20 percent will be required. In addition, *WaterSense*, a water efficiency standard established by the Environmental Protection Agency, will be required. For other rehabilitation, *ENERGYSTAR* and *WaterSense* features will be required when feasible.
- On-going Habitability Property Standards for Rental Housing: The grantee must establish ongoing property standards that apply throughout the affordability period. At a minimum, these standards must meet local code and address all items in HUD's most recent Uniform Physical Condition Standards Comprehensive Listing of "Inspectable" Areas. Project owners must address any identified deficiencies within a reasonable timeframe. On-site inspections will be performed by grantees during the period of affordability.
- Transit-Oriented Development: The HTF proposed rule provides for the opportunity to use HTF funds in a unique way to participate in transit-oriented development. Transit-oriented development is considered mixed-use, mixed-income development within ½ mile of a transit facility. In order to facilitate inclusion of HTF units in transit-oriented development, the proposed rule allows for a longer commitment period than standard for HTF funds used in these projects.

Housing Trust Fund

**COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2010 Budget Authority</u>	<u>2009 Carryover Into 2010</u>	<u>2010 Total Resources</u>	<u>2010 Obligations</u>	<u>2011 CR</u>	<u>2010 Carryover Into 2011</u>	<u>2011 Total Resources</u>	<u>2012 Request</u>
Formula Grants	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>\$1,000,000</u>
Total	1,000,000
 <u>FTE</u>	<u>2010 Actual</u>	<u>2011 Estimate</u>	<u>2012 Estimate</u>					
Headquarters	5					
Field	<u>...</u>	<u>...</u>	<u>4</u>					
Total	9					

Housing Trust Fund

**COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
Program Offsets
(Dollars in Thousands)**

Formula Grants	<u>Amount</u>
2010 Appropriation .....	...
2011 CR .....	...
2012 Request	<u>\$1,000,000</u>
Program Improvements/Offsets	+1,000,000

Proposed Actions

The 2012 Budget proposes mandatory appropriations of \$1 billion for the Housing Trust Fund, fully offset within the Budget. These funds will be allocated to the States and used to finance the development, rehabilitation, and preservation of affordable housing for extremely low-income residents. The Administration remains committed to funding the Housing Trust Fund and will continue to work with Congress to capitalize the Fund.

Housing Trust Fund

**COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
Crosswalk of 2010 Availability
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2010 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2010 Resources</u>
Formula Grants
Total

**COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
Crosswalk of 2011 Changes
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2011 President's Budget Request</u>	<u>2011 CR</u>	<u>2011 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2011 Resources</u>
Formula Grants	\$1,000,000	...	...	...	...	...
Total	1,000,000	...	...	...	...	...

NOTE: The 2010 and 2011 Budgets also proposed mandatory appropriations of \$1 billion for the Housing Trust Fund; however, an offset has yet to be identified.