



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2012 PROGRAM AND BUDGET INITIATIVES
AFFORDABLE HOUSING CAPITAL PRODUCTION

In Fiscal Year 2012, HUD is requesting \$2.65 billion to fund programs that will promote the production of affordable housing for low- to extremely low-income families and those with special needs.

The nation needs an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. Also important is ensuring that the supply of rental housing enables communities to build their own “geographies of opportunity” – places that effectively connect people and families to jobs, transportation, quality public schools, and other key community assets. In partnering with communities to create locally-driven solutions to rental housing challenges, HUD will work to expand the supply of affordable rental housing and the capital needed to increase the supply, while sharpening our ability to target the needs of individuals and neighborhoods.

HOME INVESTMENT PARTNERSHIPS

The HOME Investment Partnerships program is the primary departmental program, and principal tool of state and local governments, for the production of affordable rental and for-sale housing for low- to extremely-low income families, including mixed-income housing and housing for persons with special needs (e.g., the homeless and persons with HIV-AIDS). For many states and local governments, HOME is the only reliable stream of affordable housing development funds available to them. HOME funds traditionally have provided critical gap financing that make Low-Income Housing Tax Credit (LIHTC) projects feasible. In the last 5 years, 147,919 HOME-assisted rental units have been completed. Of that number, 47 percent or nearly 70,000 units were part of LIHTC projects. In all, HOME gap financing helped complete 132,198 LIHTC units. In the current economic climate, Tax Credits are selling at much reduced prices or not at all. Consequently, HOME funds are being used to supplement reduced LIHTC proceeds. The investment of HOME funds in rental projects often increases affordability for families at the very lowest income levels. Of the tenants occupying HOME units completed during the same five year period, 49 percent of were extremely low-income (income less than 30 percent of the Area Median Income) and another 38 percent were very low-income (income less than 50 percent of AMI but greater than 30 percent). Reflecting the critical role played by HOME funds in affordable housing development, each dollar of HOME funds expended for HOME rental and homebuyer projects leverages \$3.90 of other public and private investment. Over the life of the program, HUD has leveraged more than \$80 billion of other funds for affordable housing.



In Fiscal Year 2012, HUD is requesting \$1.65 billion in HOME funds, which will provide formula grants to States and localities that communities use—often in partnership with local non-profit groups—to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. From program inception through September 30, 2010, the HOME program has created 978,885 units of affordable housing, and has assisted 233,867 low-income households with tenant-based rental assistance. The Department is committed to continuing this contribution in 2012, when HUD expects that HOME will assist an additional 64,842 families with new affordable housing units and tenant-based rental assistance.

NATIONAL AFFORDABLE HOUSING TRUST FUND

In Fiscal Year 2012, HUD is requesting \$1 billion for the National Affordable Housing Trust Fund (HTF). Eighty percent of NHTF funds will be used to acquire, construct or rehabilitate rental units. The HTF will distribute funds by formula to States for affordable housing projects that increase and preserve the supply of rental housing for extremely low- and very low-income families, including homeless families.



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According to American Housing Survey data, in 2009 41 percent of the 17.12 million very low-income American renters had worst case needs (i.e., paying more than 50 percent of their incomes for rent or living in severely inadequate housing.) Two out of three renters that had worst case housing needs in 2009 had extremely- low incomes. Affordability problems have been exacerbated by the recent 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 (LIHTCs) have greatly diminished the private capital available to improve and expand the supply of affordable rental housing.

The HTF is an essential part of HUD's strategy to provide affordable housing to low-income families. HTF funds are expected to help to leverage other public or private funds in these projects. However, in the current market, in which private funds for affordable housing is scarce, these funds may be necessary to take the place of the private capital and debt financing needed to subsidize units to make them affordable to this group of renters.

With \$1 billion in funding, assuming that HTF funding leverages approximately 60 percent of the funds needed to pay for the production of these units, approximately 10,496 unit of housing affordable to extremely low-income households are expected to be produced as part of mixed-income affordable housing projects.

LOW INCOME HOUSING TAX CREDITS

The Low Income Housing Tax Credit (LIHTC) is the primary tool for developing and rehabbing affordable rental housing. The LIHTC program supports the development of low-income rental housing by providing tax forgiveness to investors of low-income rental properties. Specifically, investors "purchase" a 10-year stream of tax credits and limited ownership rights in exchange for upfront equity to build or rehabilitate rental units. In exchange for receiving tax credits, developers must agree to restrict rents of the low-income units to no more than 30% of 60% of the area median income. Tenants are also restricted to having no more than 60% of area median income adjusted for household size. Thus the rent restriction generally conforms to HUD's guideline that housing costs exceeding one-third of a household's annual income is "unaffordable".

Since its inception in the late 1980s, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 180,000 jobs and boosted local communities' economies by \$1.5 billion in taxes and other revenues. **In Fiscal Year 2012, HUD will continue to partner** with the Departments of Treasury and Agriculture as well as the Domestic Policy Council (DPC), Office of Management and Budget (OMB), the National Economic Council (NEC), **to identify ways to make the LIHTC a more flexible and nimble tool for the creation and preservation of affordable housing.** By allowing greater flexibility to state and local agencies who administer LIHTC programs, and providing greater incentives to developers to participate in the program, it is anticipated that the LIHTC program will continue to enable the creation of affordable housing in markets where it is needed the most. Specifically, the Fiscal Year 2012 budget includes two new proposals:

- *Basis Boost*, which would give federally-assisted housing a 30 percent increase in eligible basis for bond-financed projects, in the context of preserving, recapitalizing, and rehabilitating existing affordable housing.
- *Income Averaging*, which would replace the cap on household income – currently, 60 percent of Area Median Income (AMI) – with an option that properties serve households whose *average income* is no greater than 60 percent of AMI and with no individual household above 80 percent AMI. Developers would be required to create or preserve units that are comparable in terms of size and quality for all households served.