

**COMMUNITY PLANNING AND DEVELOPMENT  
HOUSING TRUST FUND  
2016 Summary Statement and Initiatives  
(Dollars in Thousands)**

<b>HOUSING TRUST FUND</b>	<u>Budget Authority</u>	<u>Obligations</u>	<u>Outlays</u>
2016 Budget (Mandatory).....	\$120,000	\$120,000	\$1,000

**1. What is included in the 2016 Budget?**

The fiscal year 2016 Budget estimates that \$120 million will be provided to the Housing Trust Fund (HTF) from assessments from the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The fiscal year 2016 funds will finance the development, rehabilitation, and preservation of affordable housing for extremely low-income (ELI) and very-low income residents, and will result in approximately 1,000 units produced over time. As a mandatory program, States or State-designated entities will have a more stable source of funding to allow them to increase affordable housing for the long-term.

HUD’s forthcoming report to Congress, *Worst Case Housing Needs 2013*, reports on the continued gap between the need for affordable housing and the supply of affordable housing for very low-income families, elderly and the disabled. This program would also assist with achieving the Administration’s goals to prevent and end homelessness consistent with “Opening Doors: Federal Strategic Plan to Prevent and End Homelessness”.

The Housing Trust Fund will be administered by HUD’s Office of Community Planning and Development (CPD). For more information about the proposed investment in Salaries and Expenses (S&E) needed for effective administration of the HTF, please see the CPD S&E justification.

**2. What is this program?**

The Housing Trust Fund is a mandatory program authorized by Housing and Economic Recovery Act of 2008 (HERA). HERA directed the account to be funded from assessments on Fannie Mae and Freddie Mac, but the Federal Housing Finance Agency (FHFA), as regulator of Fannie Mae and Freddie Mac, suspended these assessments in November 2008. On December 11, 2014, FHFA announced that the assessments would be reinstated effective January 2015, subject to the terms and conditions prescribed by FHFA. The Budget reflects the current estimates of those mandatory assessments and projected program activity.

Key aspects of the HTF:

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- Formula Allocations. 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 very low-income (VLI) renter households; 3) the ratio of ELI renter households with worst case housing needs; 4) the ratio of VLI renter households paying more than 50 percent of income on rent; and 5) the relative cost of construction. By statute, 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 committed for use within 2 years of the date that grant amounts are made available to the grantee; any amounts not committed within 2 years will be recaptured and reallocated.
- Eligible and Prohibited Activities. Activities include: production, preservation, and rehabilitation of affordable rental housing and affordable housing for homeownership through the acquisition (including assistance to homebuyers), operating cost assistance and operating cost assistance reserves, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including 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. At least 75 percent of funds must always be used for ELI families, or families with incomes at or below the poverty line (whichever is greater).
- 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.

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- Eligible Project Costs. Eligible project costs include: development hard costs, refinancing costs, acquisition costs, related soft costs, operating cost assistance (or operating cost reserve), relocation costs, and costs related to payment of loans.
- 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.
- On-going Habitability Property Standards for Rental Housing. The grantee must establish on-going 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 UPCS 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.

### **3. Why is this program necessary and what will we get for the funds?**

Despite a national shortage of affordable rental housing, only one in four families eligible for federal rental assistance programs receives such assistance. HUD's forthcoming report to Congress, *Worst Case Housing Needs 2013*, reveals that among very low-income renter households that lacked assistance in 2013, 7.7 million had worst case housing needs resulting from severe rent burden (paying more than one-half of their monthly income for rent) or living in severely inadequate housing units. From 2003-2013, worst case needs have increased by 48.9 percent as public-sector housing assistance and private-sector housing development have substantially failed to keep up with the growing demand for affordable rental housing.

As worst case housing needs have increased and the level of housing assistance remains relatively flat, there is a wide gap between the number of assisted units and the number of households with severe housing needs. Approximately two very low-income households have worst case needs for every one that receives rental assistance. Across diverse geographic areas, there is a strong inverse correlation between greater prevalence of worst case needs and greater prevalence of housing assistance among very low-income renters (*Worst Case Housing Needs 2013*, forthcoming).

The gap in supply of affordable rental units relative to need has been growing for decades, but in 2013 continues to show the effects of the economic recession and the associated collapse of the housing market for the nation's 18.5 million very low-income renters. Only 65 affordable units are available per 100 very low-income renters and 39 units per 100 extremely low-income renters.

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Availability is restricted because higher income renters occupy 40 percent of the stock affordable for renters with incomes of 0 to 30 percent of median, and 38 percent of stock affordable of 30 to 50 percent of median income. Available rental stock, even at higher rent levels, is being absorbed rapidly, reducing the overall rental vacancy rate from 10.9 percent in 2009 to 9.8 percent in 2011 and 8.4 percent in 2013 (*Worst Case Housing Needs 2013*, forthcoming).

At the estimated funding level of \$120 million in fiscal year 2016, the HTF funding will leverage approximately 60 percent of other private and public funds needed to pay for the production of approximately 1,000 units of housing affordable to ELI households. By statute, at least 75 percent of funds must always be used for ELI families. The targeting ensures the priority, efficacy and efficiency of the program by helping those with the greatest needs.