COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
2013 Summary Statement and Initiatives
(Dollars in Thousands)

HOUSING TRUST FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2011 Appropriation	...	...	...	...	...	...
2012 Appropriation/Request	...	...	...	...	...	...
2013 Request	$1,000,000	...	...	$1,000,000	$1,000,000	$10,000
Program Improvements/Offsets	+1,000,000	...	...	+1,000,000	+1,000,000	+10,000

1. What is this request?

The fiscal year 2013 Budget proposes mandatory appropriations of $1 billion for the Housing Trust Fund (HTF). The Housing and Economic Recovery Act of 2008 directs the Secretary of Housing and Urban Development to establish and manage a 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.

The Administration remains committed to funding the Housing Trust Fund and will continue to work with Congress to capitalize the fund. The fiscal year 2013 funds will be used to finance the development, rehabilitation, and preservation of affordable housing for very low-income residents. With $1 billion in fiscal year 2013 funding, the HTF funding will leverage approximately 60 percent of the other private and public funds needed to pay for the production of approximately 10,496 units of housing affordable to extremely low-income households. For the first year of funding, 100 percent of the funds provided to rental or homeownership projects must be used for the benefit of extremely low income families (ELI) (less than 30 percent of AMI) or families with incomes at or below the poverty line.

2. What is this program?

The Housing Trust Fund (HTF) 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-income and very low-income families, including homeless families; and 2) to increase homeownership for extremely low-income 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 HTF 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.

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

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 reduction in demand for LIHTC have greatly diminished the private capital available to improve and expand the supply of affordable rental housing.

In addition, because the residential sector is responsible for 20 percent of the nation's greenhouse gas emissions, the Department believes that the Housing Trust Fund can contribute towards energy efficiency and green retrofits once enacted. HUD will encourage and guide states to use their Housing Trust Fund grants to build energy-efficient rental housing and to make their current housing stock more energy efficient, as well as to provide opportunities for expanded sustainable community practices.

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 rule.

Program Functions and Eligible Activities

- Allocation of Amounts: The proposed allocation formula includes the following factors: 1) the shortage of rental units both affordable and available to extremely low-income renter households; 2) the shortage of rental units both affordable and available to very low-income 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 to 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 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. 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 AMI) or families with incomes at or below the poverty line. HUD will advise this percentage of funds in subsequent years, per statute, at least 75 percent of funds must always be used for extremely low-income families.

- 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.

- 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.

- 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 *ENERGY STAR* 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 EPA, 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 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.

- 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 a half mile of a transit facility. The proposed rule allows for a longer commitment period (than standard) for HTF funds for transit oriented development projects in order to facilitate inclusion of HTF units in these types of projects.

Staffing

FTE	2011 Actual	2012 Estimate	2013 Estimate
Headquarters	...	...	5
Field	...	...	4
Total	...	...	9

Headquarters staff within the Office of Affordable Housing will be responsible for managing and providing policy guidance while representative staffs in the field will be tasked with providing technical assistance and monitoring of the HTF grantees.

The HOME program, HUD's largest housing production formula grant program, is managed through the Office of Affordable Housing Programs. Management of the program includes developing, implementing, and providing oversight of policy, along with developing and implementing a comprehensive technical assistance program for HTF State or State-designated entity. In addition, Headquarters staff provides program policy guidance and program information to the forty three field offices, grantees and others. This staff also reviews and responds to IG audits, and GAO and CBO reports, and develops budget and performance measurements for the Department. Other responsibilities include program information requests, and congressional inquiries. This staff is involved in the development and maintenance of its components of Community Planning and Development's Integrated Disbursement and Information System (IDIS), and also the HOME program's internal and external website, and providing technical assistance to the field staff, grantees and others in regards to this system and websites.

Housing Trust Fund

The key workload drivers for the field offices will be the execution of the grant agreement, and performing risk analysis to determine the monitoring schedule of grantees. The field is also responsible for reviewing the local consolidated plans and annual reviews, technical assistance and monitoring and the other duties for all of CPD programs, which includes the CDBG and Homeless Assistance Program.

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

In 2009, the combined number of extremely low-income and very low-income 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 very low-income renters with worst case needs increased from 37.0 percent to 41.5 percent, while the overall number of extremely low-income and very low-income renters grew from 15.9 million to 17.1 million. While there was an overall net increase of 694,000 rental units in the housing market, there was a massive decrease of 570,000 units that were affordable to families with extremely low-incomes in the period (PD&R, Rental Market Dynamics: 2007-2009, May 2011).

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 four 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, and
- Continued HOME and CDBG housing efforts.

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 (less than 30 percent of AMI) or families with incomes at or below the poverty line. HUD will adjust this percentage of funds in subsequent years; however, per 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.

Approximately 10,496 units of housing affordable to ELI households are expected to be produced as part of mixed-income affordable housing projects. With $1 billion in funding, the NHTF funding will leverage approximately 60 percent of the other private and public funds needed to pay for the production of these units.

Housing Trust 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 needs[1] for affordable rental housing document that shortages of affordable rental housing for ELI and VLI families have grown increasingly more severe.

ELI renters are particularly burdened with severe housing problems. 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.

In most of the nation, it is infeasible for builders and housing providers to construct and operate a sufficient supply of rental housing at rents that will both enable them to service the debt and yet be affordable to the ELI and VLI renters in the area. Moreover, due to competition for affordable housing, the majority, 54 percent, of units that would have been affordable for ELI renters in 2009 were occupied by higher income households. 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, 8 fewer units were affordable and available per 100 ELI renters in 2007. As a comparison, for every 100 VLI and ELI renters together, there were only 67 affordable units available in 2009, 7 fewer than in 2007. In 2013, the Housing Trust Fund will provide funds to produce additional units affordable to ELI households with the greatest need, thus increasing the supply and reducing the most critical component of the existing shortage.

[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).

4. How do we know that this program works?

Each grantee's allocation plan must include performance goals and benchmarks. HUD will evaluate the performance of each grantee at least once a year (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 of funds. All grant amounts must be expended or obligated 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.

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SUMMARY OF RESOURCES BY PROGRAM
(DOLLARS IN THOUSANDS)

Budget Activity	2011 Budget Authority	2010 Carryover Into 2011	2011 Total Resources	2011 Obligations	2012 Budget Authority/ Request	2011 Carryover Into 2012	2012 Total Resources	2013 Request
Formula Grants	...	...	...	...	...	...	...	$1,000,000
Total	...	...	...	...	...	...	...	1,000,000