

THE BUZZ

Housing Bill Taps Fannie, Freddie for Housing Trust Fund, Capital Magnet Fund

By Buzz Roberts, Local Initiatives Support Corporation

The recently enacted Housing and Economic Recovery Act of 2008 requires Fannie Mae and Freddie Mac to contribute to two new, complementary but distinct resources for low-income housing tax credit (LIHTC) and other affordable housing and community development activities: a Housing Trust Fund and a Capital Magnet Fund. Neither fund would see any money before 2010, but by 2012 they could be receiving a combined \$500 million to \$700 million. The new regulator for Fannie and Freddie could suspend contributions temporarily to protect the agencies' financial stability or capital adequacy.

As Congress has debated legislation to strengthen the regulation of Fannie Mae and Freddie Mac over the last several years, Democrats in both the House and Senate asserted that the legislation should also strengthen the GSEs' commitment to an affordable housing mission. It was apparent early on that mandatory affordable housing contributions would be part of any final bill. In a compromise pivotal to winning bipartisan Senate support, 100 percent of the Fannie/Freddie contribution for 2009, 50 percent in 2010 and 25 percent in 2011 will be used to defray the potential federal cost of a new FHA program to refinance troubled mortgages. That means money for affordable housing should start to flow in 2010 and ramp up through 2012 and beyond.

The Housing Trust Fund (HTF) is the culmination of a broad-based advocacy campaign led by the National Low Income Housing Coalition. The campaign seeks to address the insufficiency of federal resources for the production and preservation of rental housing for extremely low-income families and individuals. Recognizing the

difficulty of carving out substantial appropriations for this purpose from a limited federal budget, the campaign has been seeking special dedicated sources. The new law, approved in July, marks a major first step in that direction by tapping Fannie Mae and Freddie Mac contributions. Advocates and some congressional leaders hope to identify other dedicated revenue sources as well.

HUD will oversee the HTF as a new block grant to the states, where it will complement the LIHTC and HOME funds that states also allocate. HUD will distribute the funds according to a formula based on relative housing needs of households with incomes as much as 30 percent of the area median, those with incomes 30-50 percent of the area median, and high construction costs. Each state will receive at least \$3 million annually. The states, after receiving public comment, will submit annual plans for allocating the funds. The states must use or commit to use these funds within two years of their availability, and uncommitted funds will be reallocated. A state may use as much as 10 percent of its allocation to cover administrative costs, including housing counseling.

At least 90 percent of the HTF money is to be used for the production, preservation, and rehabilitation of rental housing, and for operating costs. Of these amounts, at least 75 percent must benefit tenants whose incomes are either extremely low – i.e., with incomes as much as 30 percent of the area median – or below the federal poverty line. In most parts of the country, the poverty line is the higher amount. As much as 25 percent of the funds may be used for very low-income families with incomes of as much as 50 percent of AMI.

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As much as 10 percent of the HTF money may be used to benefit extremely and very low-income first-time home buyers, including assistance for down payments, closing costs, and interest rate buy-downs. The HOME program's limits on initial purchase prices and resale restrictions would apply, and pre-purchase counseling would be required.

In awarding the HTF money, states would base funding priorities on: their identified needs; geographic diversity; timely implementation; the extent and duration of rental affordability to extremely low-income tenants; the use of other funding sources; and the merits of the proposed activity. The focus on affordability to extremely low-income renters suggests that properties with project based rental assistance will have an edge in competing for funds. As such, the program could favor preservation over new production.

The Capital Magnet Fund (CMF) will be a competitive grant program administered by the Community Development Financial Institutions (CDFI) Fund in the

Treasury Department. CDFIs and not-for-profit housing developers and operators will be the eligible applicants. The CDFI Fund also allocates new markets tax credits and several grant programs offering \$54 million in fiscal year 2008 to CDFIs. The CMF would more closely resemble the financial assistance program but could grow to be significantly larger.

Recipients would use CMF grants to leverage private capital, including LIHTC investments, for: the development, preservation, rehabilitation, or purchase of affordable housing for primarily extremely low-, very low- and low-income families; and economic development activities or community service facilities, such as day-care centers, workforce development centers, and health-care clinics, which in conjunction with CMF-funded affordable housing activities implement a concerted strategy to stabilize or revitalize a low-income area or underserved rural area.

CMF grants could be used, for example: to capitalize loan loss reserves, revolving loan funds, affordable housing

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funds, economic development funds, or community service facilities funds; or for risk-sharing loans. Each grant is to result in projects whose aggregate costs total at least ten times the grant amount.

In making CMF awards, the Treasury Department is to seek to fund activities in geographically diverse areas of economic distress, including metropolitan and underserved rural areas in every state. Economic distress factors may include: the percentage of low-income families or extent of poverty; extent of blight and disinvestment; projects that target extremely low-, very low- or

low-income families in or outside a designated economic distress area; or other criteria. No grantee could receive more than 15 percent of the funds available in any year. ❖

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