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### 1. What is this request?

The fiscal year 2015 Budget proposes mandatory appropriations of $1 billion for the Housing Trust Fund (HTF), which did not receive an appropriation in fiscal year 2014. 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 that may be appropriated, transferred, or credited to such fund under any other provisions of law. The Act had specified that the HTF funds would come from the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), however that plan was overturned as a result of the financial problems of those enterprises.

The Administration remains committed to funding the Housing Trust Fund and will continue to work with Congress to capitalize the Fund. The fiscal year 2015 funds will be used to finance the development, rehabilitation, and preservation of affordable housing for extremely low-income (ELI) residents. 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. The need for affordable housing was highlighted in HUD’s Worst Case Housing Needs 2011: Report to Congress, which reported the ever increasing gap between the need for affordable housing and the supply of affordable housing for very low-income families, elderly and the disabled. This program also would assist with achieving the Administration's goals of “Opening Doors: Federal Strategic Plan to Prevent and End Homelessness”.

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Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

A total of 8 FTEs are requested for the Housing Trust Fund, an 8 FTE increase compared to fiscal year 2014. For fiscal year 2015, the total S&E funding is approximately $1.072 million. For personnel services, the Housing Trust Fund is requesting $1.049 million. The Housing Trust Fund’s fiscal year 2015 non-personnel services budget request is $23 thousand.

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.

More details on the S&E request are provided in S&E justification for the Office of Community Planning and Development.

An appropriation of funds at the requested level will result in the following results.

- Produce approximately 16,000 units over time.¹
- During the first year of funding, 100 percent of the funds provided to projects must benefit ELI families (less than 30 percent of average median income) or families at or below the poverty line.
- Funding at the requested level will leverage approximately 60 percent of the other private and public funds needed for the production of affordable housing units to ELI households.

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 ELI and very low-income (VLI) families, including homeless families; and 2) to increase homeownership for ELI and VLI 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.

¹ This estimate reflects the use of historical total development cost; HUD is in the process of refining this estimate.
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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 final program rule is expected to be published within this year. The following highlights key aspects of the proposed rule.

- **Allocation of Amounts:** 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 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 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.
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- **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 revise this percentage of funds in subsequent years, per statute, so at least 75 percent of funds must always be used for ELI 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
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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.

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

a. What is the problem we’re trying to solve?

A recent HUD Report, i.e., Worst Case Housing Needs 2011: Report to Congress, February 22, 2013\(^2\) finds dramatic increases in worst case housing needs during the 2009–2011 period that cut across demographic groups, household types, and regions. This program tries to lower the amount of worst case housing needs. This rise in hardship among renters is due to substantial increases in rental housing demand and weakening incomes that increase competition for already-scarce affordable units.

Given the severely challenged economic conditions that the United States confronted during this period, particularly in the housing market, it is not surprising that the need for housing assistance continues to outpace the ability of federal, state, and local governments to supply it.

Worst case needs continue to grow at record rates. The number of renter households with worst case needs increased to 8.48 million in 2011, up from a previous high of 7.10 million in 2009. The high rate of growth in worst case needs observed in 2009 continues unabated. The number of worst case needs has grown by 2.57 million households since 2007—a striking 43.5 percent increase. The vast majority of these renters had worst case needs because of their severe rent burdens—paying more than half of their income for rent—while inadequate housing caused only 3 percent of worst case needs.

- The worsening situation for the nation's 19.3 million VLI renters clearly reflects the severe economic dislocation of the recession and the associated collapse of the housing market, which reduced homeownership through foreclosures and increased demand for rental housing. The scale of the problem requires major strategic decisions. As worst case housing needs continue to increase and the level of housing assistance remains relatively flat, the gap between the number of assisted units and the number of households with severe housing needs has never been wider. There are approximately two VLI households with worst case needs for every VLI household with rental assistance. Conversion of owner-occupied to rental units following foreclosure helped offset some of the sharp increase in rental demand. The stock of owner-

occupied housing decreased by almost 760,000 units during 2009-2011 while the rental stock increased by 3.33 million units (8.4 percent). The 3.47 million new renter households absorbed all the net increase of rental units while also occupying 140,000 previously vacant units. Despite these substantial shifts in supply, the number of affordable and available rental units decreased to 65 units per 100 very low-income renters and 36 units per 100 extremely low-income renters. (U.S. Department of Housing and Urban Development, Office of Policy Development and Research, February 2013).

According to the “State of the Nation’s Housing 2013”, published by the Joint Center for Housing Studies at Harvard University, the U.S. homeownership rate fell for the eighth straight year from 66.1 percent in 2012 to 65.4 percent in 2013. For those under 54 years of age the homeownership rate is at the lowest point on record. The decline was especially pronounced for African-American families and for families with children. Although there has been a sharp drop in home prices and mortgage interest rates are historically low, tight credit conditions continue to prevent many would-be homebuyers, especially first-time homebuyers, from purchasing a home. Private lending activity is unlikely to increase for some time. Furthermore, low-income and minority borrowers are much more likely to be denied conventional loans. Programs offered by state housing finance agencies and non-profit lenders are fairly small in scale, and the availability of federal housing assistance has declined.

The number of households with housing cost burdens continues to climb. The number of households with severe cost burdens (paying more than half their incomes for housing) increased by 6.7 million from 2001 to 2011, a jump of 49 percent. Severe housing cost burdens are geographically widespread with 17.9 percent of all U.S. households devoting more than half their incomes to housing. In 40 states, at least 14 percent of all households are severely cost-burdened. Meanwhile, the stock of low-cost housing that these households can afford continues to shrink.

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:

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

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At the requested level of $1 billion in fiscal year 2015, the HTF funding will leverage approximately 60 percent of the other private and public funds needed to pay for the production of approximately 16,000 units of housing affordable to ELI 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 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.

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 proposed program rule for the Housing Trust Fund, HUD proposed direction of 100 percent of the funds to benefit ELI households.

4. How do we know this program works?

Evaluation and Research

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.

Plans to Improve this Program Via IT Investment

The following Information Technology systems support management and administration of the Housing Trust Fund program:

- Integrated Disbursement Information System (IDIS): In fiscal year 2015, the National Housing Trust Fund will set up, commit funds to, drawdown funds for, and report accomplishments for projects in (IDIS). This will include specific address and beneficiary data for every unit completed. In addition, information on the amount of HTF funds disbursed for every HTF project along with funds leveraged from other sources will be contained in IDIS. HUD will use the data contained in IDIS for performance reporting, remote compliance monitoring, tracking the progress of HTF projects, tracking compliance with HTF timeliness requirements, responding to Congressional requests and Freedom of Information Act requests, program budget preparation, and many other purposes.
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- Grants Management Process System (GMP): GMP is used to automate grantee risk analysis processes, field office work planning, grantee monitoring, oversight, and reporting. GMP is used to monitor and report on 4,445 grantees in seven major grant programs (will include HTF) totaling billions of dollars annually. GMP is a critical grants management tool for Field Office staff and Headquarters managers. GMP has tools to monitor, oversee performance & assess whether funds are properly expended. GMP improves program outcomes by maximizing impact of grant funds, enforcing compliance, and reducing waste, fraud, abuse, and mismanagement.

Please refer to the Information Technology Fund justification for more details on these IT systems.
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