Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

How the Housing Trust Fund and Capital Magnet Fund Support Affordable Housing

NOVEMBER | 2022

The Housing Trust Fund (HTF), managed by the Department of Housing and Urban Development (HUD), and the Capital Magnet Fund (CMF), managed by the Department of the Treasury, provide grants to increase and preserve the supply of affordable rental housing and to increase home-ownership for low-income households. The funds are financed through fees paid by Fannie Mae and Freddie Mac, two government-sponsored enterprises (GSEs), on new mortgage guarantees that they make.

- **The Funds' Receipts and Grants.** By the end of 2021, payments to the funds since their inception totaled $2.7 billion for the HTF and $1.5 billion for the CMF. In fiscal year 2021, grants of about $690 million were allocated from the HTF and grants of $336 million were awarded from the CMF. Only a small portion of those grants was disbursed in 2021. Grants from the funds are made to entities responsible for producing and maintaining housing for low-income renters or homeowners. To receive the grants, developers must meet certain eligibility and affordability requirements for the qualifying properties.
- **Budgetary Impact.** Allocating money received by Fannie Mae and Freddie Mac to use for affordable housing is a cost to the federal government because those two entities are effectively part of the government, in the Congressional Budget Office's assessment. Although payments made by Fannie Mae and Freddie Mac to the funds do not increase the GSEs' potential liability from their mortgage guarantees (because they are not taking on any more risk), they reduce the net income of the enterprises and result in budget outlays.
- **Production of Low-Income Units.** As of October 3, 2022, projects funded with nearly $317 million in HTF grants have produced 2,989 completed rental units. As of the end of fiscal year 2021, $168 million of CMF funds had been spent on completed projects that have produced nearly 21,000 rental units and 4,200 owner-occupied properties.
- **Effectiveness.** Measuring the effectiveness of the grants made from the HTF and CMF in relation to other federal activities that create or preserve affordable housing is difficult. Those comparisons must take into account several factors, including the type of subsidy offered by the program: Some programs (including the HTF and CMF) offer subsidies that are designed to spur production of new housing units; others provide subsidies that spur demand for them by increasing the purchasing power of renters and homeowners.

Payments to the Funds and Grants From the Funds

The federal government supports housing for low-income households through a number of programs, including the Housing Trust Fund and the Capital Magnet Fund. The HTF provides grants to states to increase and preserve the supply of rental housing and homeownership opportunities for low-income families. The CMF provides grants to community development financial institutions (CDFIs)—financial institutions that focus on economically disadvantaged communities—and nonprofit housing organizations to finance loans and to capitalize funds that support affordable housing.

Both funds were established by the Housing and Economic Recovery Act of 2008 (HERA). They are financed through an up-front fee of 4.2 basis points (or 0.042 percent) on the principal balance of new mortgage

Notes: Unless this report indicates otherwise, all years referred to are calendar years. Numbers in the text and tables may not add up to totals because of rounding.

Box 1.

Other GSE Initiatives That Support Affordable Housing

In addition to their payments to the Housing Trust Fund and Capital Magnet Fund, Fannie Mae and Freddie Mac (two government-sponsored enterprises, or GSEs) undertake other initiatives designed to increase the availability of affordable housing. Those initiatives include the following:

- *Enterprise Housing Goals*: The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008 (HERA), requires Fannie Mae and Freddie Mac to meet annual affordable housing goals for very low- to moderate-income families.[1] The single-family homeownership goals—expressed as a percentage of the total number of home purchase mortgages guaranteed by the GSEs—target mortgage loans for low-income families and families that reside in low-income areas. The multifamily goals target the total number of units of rental housing that is affordable to low-income families.
- *Duty to Serve Program*: HERA also requires the GSEs to facilitate secondary (resale) markets for mortgages on housing for very low- to moderate-income families. The markets served as part of the program are those for manufactured housing, affordable housing preservation, and rural housing.[2]
- *Low-Income Housing Tax Credits*: The Low-Income Housing Tax Credit is designed to address the shortage of affordable rental housing through the creation and preservation of affordable units in underserved areas throughout the country. The credit, which was created by the Tax Reform Act of 1986, can be used by developers to offset some of the development costs of affordable rental housing. To generate up-front cash to cover those costs, developers often sell those credits to investors. The GSEs purchase those tax credits as a way to support and preserve the supply of affordable multifamily housing.[3]

1. Federal Housing Finance Agency, "Fannie Mae and Freddie Mac Affordable Housing Goals" (accessed April 27, 2022), https://tinyurl.com/59jmrmvp.
2. Federal Housing Finance Agency, "Duty to Serve Program" (accessed April 27, 2022), https://tinyurl.com/2p8v29u6.
3. Federal Housing Finance Agency, "FHFA Announces Increase in the Enterprises' LIHTC Cap" (press release, September 1, 2021), https://tinyurl.com/bcmbpj88.

guarantees made by Fannie Mae and Freddie Mac—two enterprises that help finance a large share of mortgages in the United States. Sixty-five percent of those fees collected by the GSEs and paid into the funds are allocated to the HTF, and 35 percent go to the CMF.

Although the HTF and CMF were established in 2008, the GSEs did not begin paying into the funds until after 2014. (For information on other ways the GSEs support affordable housing, see Box 1.) HERA authorizes the director of the Federal Housing Finance Agency (FHFA)—the regulator and conservator of the GSEs—to suspend payments to the funds under certain conditions.[1] On November 13, 2008, FHFA suspended those payments, citing a concern that they would contribute to the financial instability of the GSEs and reduce the net worth of the enterprises while they were in conservatorships and losing money. On December 11, 2014, FHFA allowed the GSEs to start paying into the funds.[2]

How those payments from the GSEs are distributed to recipients depends upon the fund. Distributions from the HTF are made directly to states using a needs-based formula defined in HERA. Distributions from the CMF are made through an application process conducted by the Treasury and outside reviewers.

Payments to the Funds

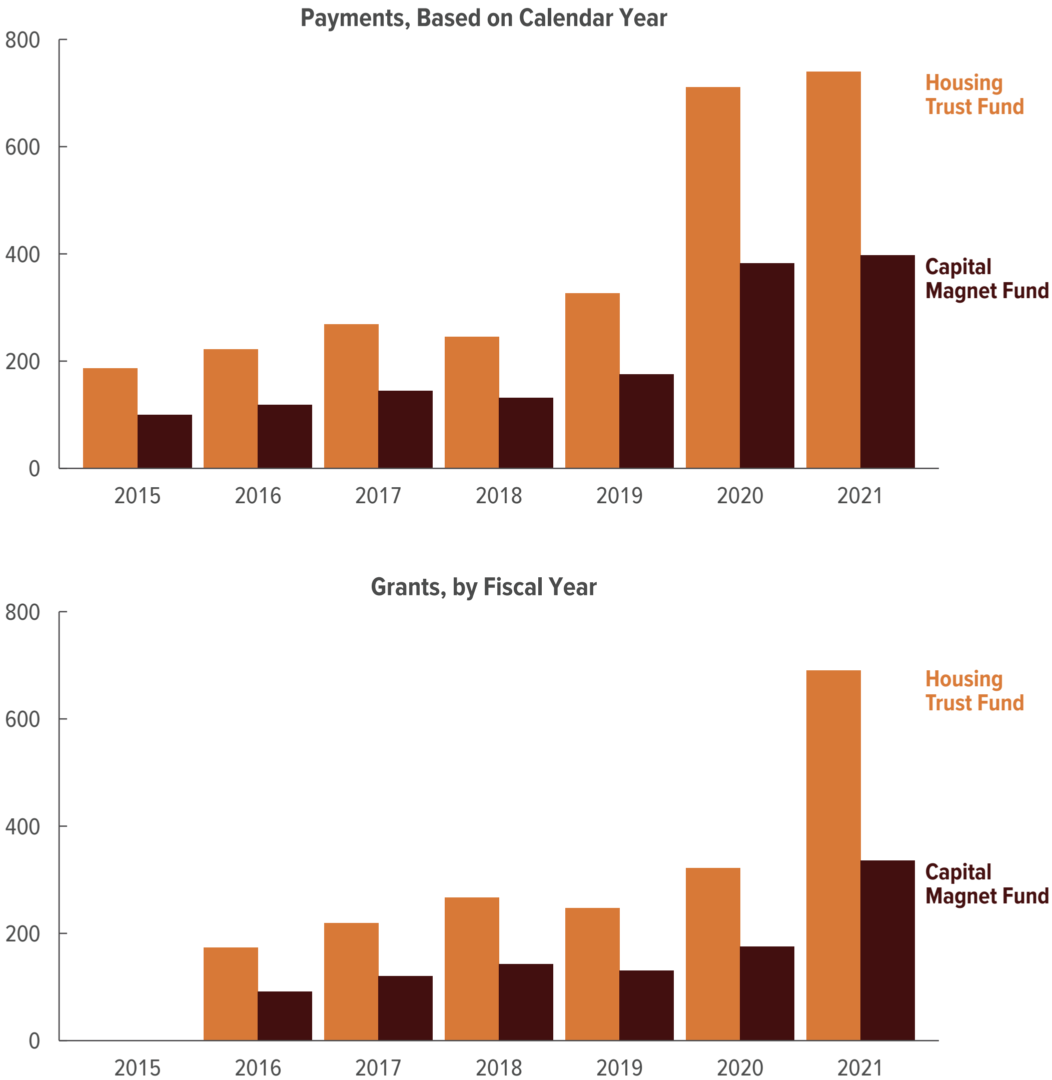
Since Fannie Mae and Freddie Mac began paying into the HTF and CMF on the basis of their guarantees in 2015, their payments have grown steadily—from $0.3 billion for guarantees made in 2015 to more than $1 billion for

1. In September 2008—during the financial crisis that damaged each enterprise's financial condition—FHFA used its authority to take over management of the GSEs' assets and business, a concept known as conservatorship.
2. For information on the conditions under which the GSEs were allowed to begin making payments, see Federal Housing Finance Agency, "FHFA Statement on the Housing Trust Fund and Capital Magnet Fund" (December 11, 2014), https://tinyurl.com/82sjvft2.

Figure 1.

The GSEs' Payments to the Funds and the Funds' Subsequent Grants

Millions of Dollars



Since the end of 2015—when Fannie Mae and Freddie Mac began to make regular payments to the Housing Trust Fund and Capital Magnet Fund—the amounts of the GSEs payments have grown steadily. Grants from the funds, which typically lag the payments by a year or more, have grown at a similar rate.

Data sources: Department of Housing and Urban Development; Department of the Treasury; annual reports from Fannie Mae and Freddie Mac for 2015 through 2021. See www.cbo.gov/publication/58427#data.

Although the HTF and CMF were established in 2008, Fannie Mae and Freddie Mac (two government-sponsored enterprises) did not begin making payments to the funds until after 2014. In addition to the payments from the GSEs, the CMF received an appropriation of $80 million in 2010.

Grants from the HTF are made to states on the basis of a formula that is defined in law. Grants from the CMF are made to community development financial institutions and nonprofit organizations on the basis of the CMF's application process. Those amounts do not represent legal obligations or outlays as recorded in the budget.

CMF = Capital Magnet Fund; GSE = government-sponsored enterprise; HTF = Housing Trust Fund.

guarantees made in both 2020 and 2021 (see Figure 1, top panel). The large payments for guarantees made in 2020 and 2021 were attributable, in part, to the fees collected from the vast number of borrowers who refinanced their mortgages in those years.

At the outset of the coronavirus pandemic in early 2020, the Federal Reserve provided monetary accommodation to support the economy by, among other actions, lowering the target for the federal funds rate to a range of zero to 0.25 percent and purchasing large quantities of assets, including Treasury securities and agency mortgage-backed securities (MBSs). Those actions lowered mortgage interest rates, which increased the principal balance of new guarantees made by the GSEs on refinanced mortgages and the corresponding payments to the funds. By the end of 2021, payments for guarantees made since 2015 totaled $2.7 billion for the HTF and $1.5 billion for the CMF.

As of July 2022, $2.0 billion remained in the HTF (representing payments minus transfers to the states, as discussed below).[3] Of that $2.0 billion, $1.2 billion was obligated for specific purposes but not spent and $0.8 billion was available for obligation.[4] For the CMF, $0.5 billion remained in the fund as of September 2022 (representing payments minus transfers to CDFIs and nonprofit organizations, as discussed below); $0.1 billion had been obligated and $0.4 billion remained unobligated.

Grants From the Housing Trust Fund

HUD allocates money from the HTF among the states according to a formula that is defined in law. That formula takes several sets of factors into account. One set of factors considers the shortage of rental units available and affordable to extremely low-income renters (those with income equal to or less than 30 percent of the median family income for the area or equal to or less than the federal poverty guidelines, commonly known as the federal poverty level) and very low-income renters (those with income greater than 30 percent of the median family income for the area but less than or equal to 50 percent of that income). The law requires that extremely low-income renters be given priority for units. Another set of factors considers the number of extremely low-income and very low-income renters in each state paying more than 50 percent of their income for rent. A final set of factors considers the cost of construction in each state.[5]

Across all 50 states and the District of Columbia, about $690 million in HTF funds was allocated for grants in fiscal year 2021 (see Figure 1 on page 3, bottom panel).[6] California was allocated the largest share of those grants (18.3 percent), followed by New York (10.6 percent) and Texas (6.0 percent). Thirteen states and the District of Columbia received the smallest grant allocation, approximately $3.1 million.[7] (The law provides for a minimum allocation of $3.0 million per state.)

In general, the allocation of grants tracks state-level population closely: From 2016 to 2020, most states received a share that was similar to their share of the total U.S. population based on the 2020 census (see Figure 2).[8] The main exceptions include Texas (which represents 8.7 percent of the total U.S. population but was allocated 5.0 percent of the grants), Florida (6.4 percent of the population and 4.0 percent of the grants), New York (6.0 percent of the population and 8.7 percent of the grants), and California (11.8 percent of the population and 14.5 percent of the grants). Those exceptions could be the result of various factors, including the extent of the shortage of units for low-income renters, the share of low-income households paying more than 50 percent of their income for rent, and differing costs of construction.

The funds that states receive may be distributed to organizations such as housing finance agencies, housing and community development entities, or tribally designated housing entities. Those organizations (or a designated subgrantee) then distribute the funds to developers or owners to build rental housing or subsidize home purchases for qualifying low-income households. To receive assistance (which can be in the form of equity investments, loans, or grants, among others), developers must propose projects that meet the fund's eligibility criteria (discussed in detail below).

Grants From the Capital Magnet Fund

CMF grants are awarded annually. Organizations apply for the grants, and the applications are evaluated by a committee made up of people from the Treasury and outside reviewers with expertise in affordable housing finance and community development. In the fiscal year

3. Office of Management and Budget, "MAX Information and Reports (Executive, Legislative, and Judicial Users): FY 2022 - SF 133 Reports on Budget Execution and Budgetary Resources" (accessed October 21, 2022), https://tinyurl.com/2p8dtvdr.

4. An obligation is a legally binding commitment by the federal government that will result in outlays, immediately or in the future.

5. 12 U.S.C. §4568(c)(3)(B).

6. This report uses the term allocation when discussing grants to states from the HTF, which are based on a formula that is defined in law, and the term award when discussing grants from the CMF to community development financial institutions and nonprofit organizations, which are based on the CMF's application process. Those amounts do not represent legal obligations or outlays as recorded in the budget.

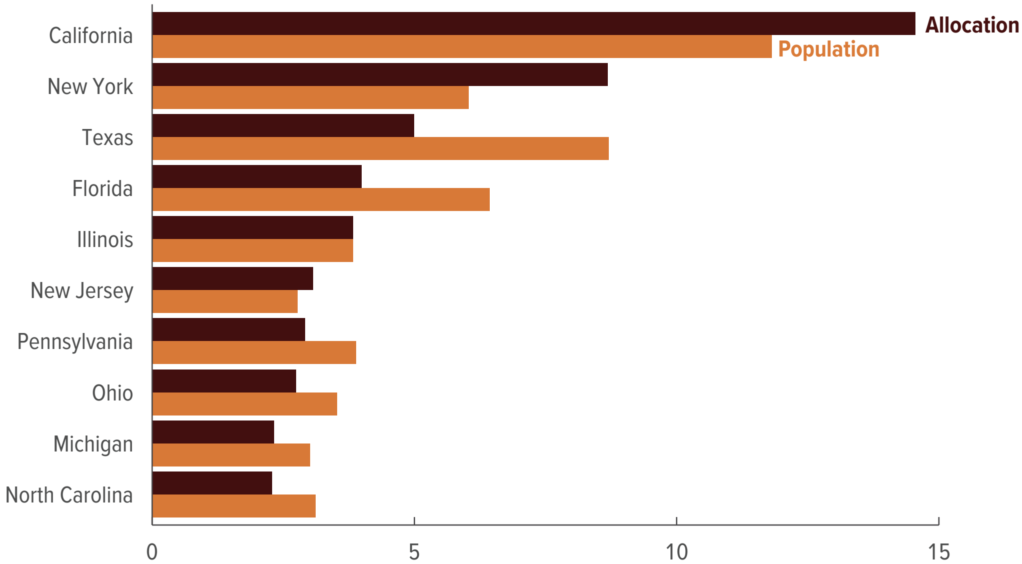
7. Katie Jones, *The Housing Trust Fund: An Overview*, Report R40781, version 22 (Congressional Research Service, updated December 20, 2021), https://tinyurl.com/yun73hks.

8. For state-level grants, see Department of Housing and Urban Development, "HTF Grant Specific Commitment and Disbursement Summary Report" (accessed May 18, 2022), https://tinyurl.com/2p8p84zn. For census data, see U.S. Census Bureau, "2020 Population and Housing State Data" (accessed May 18, 2022), https://tinyurl.com/4rpweh9w.

Figure 2.

States Receiving the Largest Allocations From the Housing Trust Fund, 2016 to 2020

Percent



Allocations from the Housing Trust Fund to the states are roughly proportional to their population, with a few exceptions. Those exceptions can result from various factors, including shortages of units for low-income renters, disparities in shares of low-income households paying a large portion of their income for rent, and differences in construction costs.

Data sources: Census Bureau; Department of Housing and Urban Development. See www.cbo.gov/publication/58427#data.

State allocations are measured as a share of all allocations over the 2016–2020 period. State populations are measured as a share of the total U.S. population based on the 2020 census.

2021 grant cycle, 146 organizations requested more than $990 million, and $336 million was awarded to 59 organizations (see Figure 1 on page 3, bottom panel).

Qualified applicants include CDFIs and nonprofit organizations that develop or manage affordable housing. Each applicant must submit either a "financing equity" application or an "affordable housing developer/manager" application.[9] Financing equity applications are for entities that intend to make loans and equity investments for affordable housing development or other authorized purposes. Affordable housing developer/manager applications are for those who intend to develop affordable housing.

Applicants must demonstrate that they can leverage the grant by at least 10 to 1—meaning that for every dollar granted by the CMF, the recipient must provide an additional $9 from other sources within five years of the grant.[10] Those sources of leverage include other government grants or loans, equity investments from private sources, and loans or other financial arrangements from private financial institutions or other entities.

Budgetary Impact of the GSEs' Contributions to the Funds

Each year, Fannie Mae and Freddie Mac are required to forward to the funds an amount equal to 4.2 basis points (or 0.042 percent) of the principal balance of new guarantees. In CBO's assessment, those GSEs are effectively part of the federal government.[11] As such, the payments they make to the HTF and CMF are intragovernmental transactions (amounts paid by one part of the government to another) and do not represent income to the government. The money paid by the GSEs is recorded as offsetting receipts to HUD and the Treasury; when the GSEs are viewed as part of the government, that transaction has no net effect on the budget. For example, based

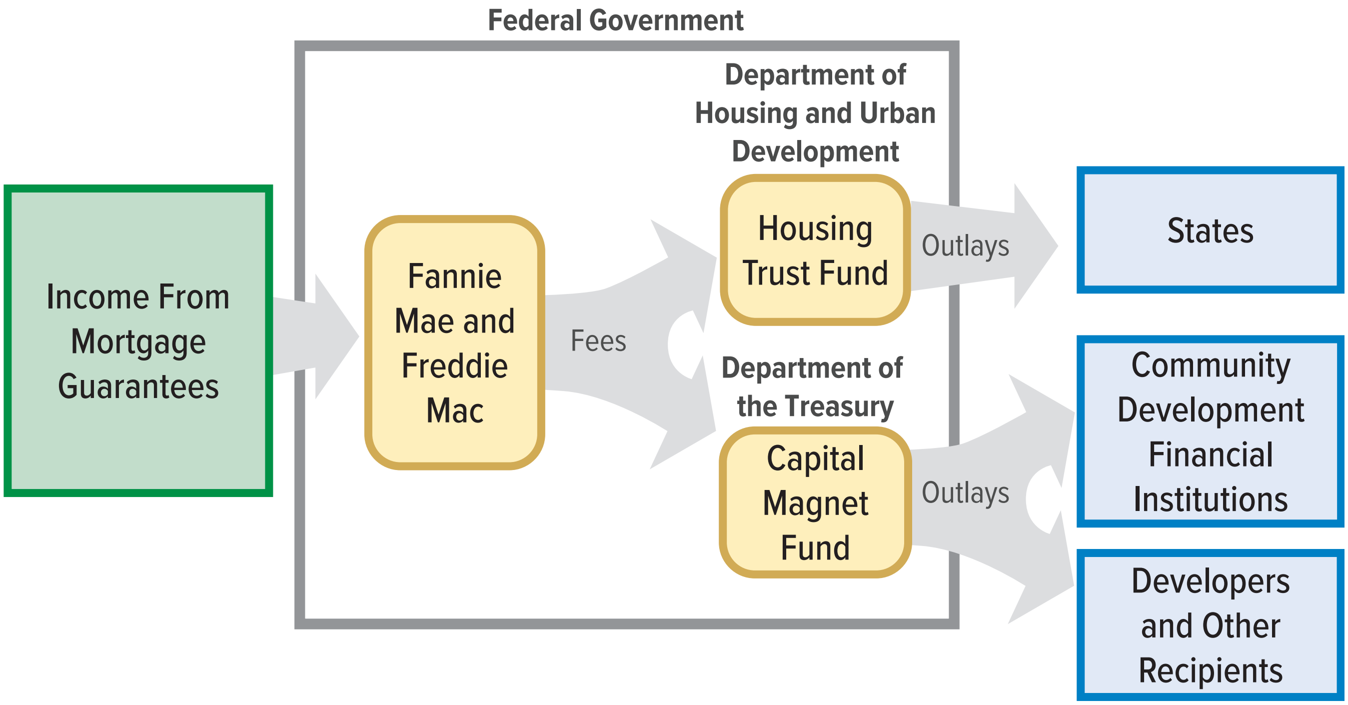
9. Department of the Treasury, Community Development Financial Institutions Fund, "FY 2021 Capital Magnet Fund Application Webinar for Applicants With a Financing Entity Approach" (September 28, 2021), https://tinyurl.com/3wnuyc5n (PDF).

10. Recipients must also report annually on their financial condition and performance throughout the period of their grant. For details on compliance and reporting, see Department of the Treasury, Community Development Financial Institutions Fund, "Step 5: Compliance Resources and Reporting" (accessed May 18, 2022), https://tinyurl.com/4vnkndrs.

11. For details, see Congressional Budget Office, *Accounting for Fannie Mae and Freddie Mac in the Federal Budget* (September 2018), www.cbo.gov/publication/54475.

Figure 3.

Cash Flows of the Housing Trust Fund and Capital Magnet Fund



Data source: Congressional Budget Office.

on their 2021 annual reports, the GSEs were committed to make payments to the trust funds totaling $1.1 billion in 2022—more than $700 million to the HTF and nearly $400 million to the CMF. Those amounts were derived from total new guarantees in 2021 of about $2.7 trillion.

The payments the funds receive are sent to either the states (in the case of the HTF) or to CDFIs or other grant recipients (in the case of the CMF). (For an illustration of that process, see Figure 3.) At that point, those payments represent outlays from the funds—that is, spending by the federal government under the control of the executive branch without further say by the Congress. Those outlays, which are the net effect of those transactions on the budget each year, add to the budget deficit in the year they are made.

Although the offsetting receipts to the funds and subsequent outlays may not occur in the same year, the GSEs' payments to the funds and grants made from the funds will ultimately net to zero. Therefore, over time, the budgetary cost is borne by the GSEs rather than either HUD or the Treasury because the GSEs are prohibited by law from passing along to recipients of their guarantees the cost of their payments to the funds.

CBO's budgetary treatment of the GSEs' payments to the funds involves two different accounting approaches: fair-value estimating of the costs of the GSEs' mortgage guarantees on an accrual basis, and cash-based estimating of the effects of those payments on the Treasury and HUD. In its baseline budget projections for the coming 10 years, CBO accounts for the GSEs' operations as though they are being conducted by a federal agency. That means CBO measures the cost of the GSEs' mortgage guarantees on a fair-value basis by effectively using market prices for those guarantees. (The fair value of a liability, such as a loan guarantee, is the price that would have to be paid to induce a private financial institution to assume the liability.) Although payments to the funds do not increase the size of the liability associated with the GSEs' guarantees (because the enterprises are not taking on any more risk), they do reduce the net income the enterprises receive from providing those guarantees. As a result, the contribution of 4.2 basis points made by the GSEs on new guarantees increases the subsidy rate (the subsidy cost per dollar of mortgage principal guaranteed) by the same amount.[12]

Although Fannie Mae and Freddie Mac are controlled by the government through conservatorships, the Administration's Office of Management and Budget (OMB) treats them as nongovernmental entities for budgetary purposes. OMB records in the budget the cash transactions between the Treasury and the GSEs.[13] By that accounting, the costs of the GSEs' guarantees are not recorded as governmental outlays, and the payments by the GSEs to HUD and the Treasury reduce budget deficits because they are not intragovernmental. To make its estimates for the current year consistent with how the Administration reports budget totals, CBO also presents the projected cost of Fannie Mae and Freddie Mac for that year on a cash basis.

Production of Low-Income Housing Units

After the federal government has provided grants to recipients—to states for the HTF and to either CDFIs or developers for the CMF—they are ultimately distributed to the entities responsible for producing and maintaining housing for low-income renters or homeowners.

Eligible Uses of the Funds

Both funds share the goal of increasing and preserving the supply of rental housing and homeownership opportunities for low-income families. Eligible uses of the funds differ, although all uses must be in conjunction with affordable housing development.

- For the HTF, at least 80 percent of the funds must be used for activities related to rental housing. Of the remaining 20 percent of the funds, half may be used to produce, preserve, and rehabilitate owner-occupied housing and to assist homeowners, and half is for administrative costs. Among projects, eligible uses of the funds include acquiring property for rental housing; constructing, preserving, and rehabilitating rental units; and helping pay operating costs (such as maintenance, utilities, and insurance).
- For the CMF, at least 70 percent of the funds must be used for rental housing or homeownership. (The allocation of funds between those two activities is not set.) Up to 30 percent of the funds can be allocated toward economic development activities, which include the development or purchase of community facilities (such as health care clinics and daycare facilities) or the revitalization of local businesses.

Affordability Requirements

Amounts distributed from the HTF must be used to develop rental properties for households with very low income or extremely low income. Income limits that correspond to those measures can differ depending on the geographic area. The median family income in 2022 for Ocala, Florida, for example, is approximately $65,000; as a result, the income cutoff to qualify for a rental unit built for an extremely low-income household in that city would be about $20,000 (adjusted for family size). In San Francisco, by contrast, a similarly affordable property would require an income cutoff of about $50,000 (adjusted for family size) based on a median family income of $166,000.[14]

According to the HTF interim rule, which was developed by FHFA to implement HERA, in any fiscal year in which available funds are less than $1 billion, the entire grant must benefit extremely low-income families or those with income at or below the poverty level.[15] If the amount available exceeds $1 billion, at least 75 percent

12. Because the fee of 4.2 basis points is charged when the guarantee is made, there is no discounting of that fee. Therefore, the effect on the subsidy rate, which is a present-value measure, is equal to the fee. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today. The present value depends on the rate of interest (known as the discount rate) that is used to translate future cash flows into current dollars.

13. For a description of the GSEs' payments to the Treasury under their conservatorships, see Congressional Budget Office, *Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions* (August 2020), www.cbo.gov/publication/56496.

14. Those amounts are the 2022 benchmarks for extremely low-income households in those areas. Across the United States, there are thousands of different income limits because of the number of areas (almost 5,000) and the limits for each (eight, based on family size). See Department of Housing and Urban Development, Office of Policy Development and Research, "Housing Trust Fund Income Limits" (accessed June 2, 2022), www.huduser.gov/portal/datasets/HTF-Income-limits.html.

15. The poverty guidelines (often called the federal poverty level) are set by the Department of Health and Human Services and published annually in the *Federal Register*. For example, the 2022 poverty guideline for the 48 contiguous states and the District of Columbia is $27,750 for a family of four. For more information, see Department of Health and Human Services, "HHS Poverty Guidelines for 2022" (accessed October 10, 2022), https://tinyurl.com/bdd98b2k.

must benefit extremely low-income families or those with income at or below the poverty level, and the remaining funds must be used for very low-income families.

To ensure the affordability of rental housing financed with HTF grants, the interim rule sets limits on the rents that landlords may charge low-income renters.[16] For extremely low-income households, rent (including utilities) cannot exceed either 30 percent of the federal poverty level or 30 percent of the income of a household that is making 30 percent of the median family income for the area. For very low-income families, rent (plus utilities) cannot exceed 30 percent of the income of a household that is making 50 percent of the median family income for the area.[17] Rental housing financed with HTF grants must retain those affordability measures for at least 30 years. Affordability is maintained differently for owner-occupied housing financed with HTF grants (up to 10 percent of all grants); in those cases, the purchase price of the financed home is restricted to no more than 95 percent of the median purchase price of a home in the area.

Affordability requirements for housing financed with grants from the Capital Magnet Fund differ. The entire 70 percent of CMF funds required to be allocated to rental housing or homeownership must be used to develop properties for households with an income that does not exceed 120 percent of the median family income for the area, and a subset of the entire amount (more than 50 percent) must be used to develop units for households with income less than 80 percent of the median family income for the area. If a CMF grant is used to finance rental housing, then at least 20 percent of the units in a multiunit property must be affordable to households that make 80 percent or less of the median family income. For example, based on the $65,000 median family income in 2022 for Ocala, Florida, the income cutoff to qualify for a rental unit built with CMF money would be either $52,000 at the 80 percent threshold or $78,000 at the 120 percent threshold (adjusted for family size). In San Francisco—with its 2022 median family income of $166,000—those thresholds would be approximately $133,000 and $199,000, respectively (adjusted for family size).

For all rental properties financed with CMF grants, rents are set using a formula consistent with that used for properties that qualify for the low-income housing tax credit (or LIHTC, explained more fully below). The formula stipulates that, in general, rent (plus utilities) cannot exceed 30 percent of a household's income. (The formula accounts for the number of bedrooms in the rental unit and whether the family or property is subject to a rental subsidy.)[18] Every property funded with CMF grants (whether rented or owner-occupied) must retain affordability for at least 10 years.

Units Produced Using HTF Grants

According to HUD, through September 2022, the agency had committed more than $1.3 billion of HTF grants to build new rental units and rehabilitate existing ones.[19] As of October 3, 2022, developers had completed projects funded with $317 million in HTF grants. Those projects have produced 2,989 completed rental units, at an average HTF cost per unit of approximately $106,000. Of those units, almost 1,750 were newly constructed (at an average HTF cost per unit of roughly $122,000) and more than 1,200 were rehabilitations of existing residences (at an average HTF cost per unit of about $84,000). Nearly all (98 percent) of those units are occupied by renters earning 30 percent or less of the area's median income, and nearly 75 percent are occupied by residents receiving some other form of rental assistance (see Table 1). About 30 percent of the residents of those units are Black or African American, and most households consist of one person. More than 35 percent of units are designated for use by homeless individuals or families.

Units Produced Using CMF Grants

Through 2021, the Treasury Department had awarded 278 grants totaling $1.1 billion through the CMF.[20] As of October 2021, $168 million of CMF money had been

16. Department of Housing and Urban Development, "Housing Trust Fund Rent Limits" (accessed June 2, 2022), www.hudexchange.info/programs/htf/htf-rent-limits/.

17. Because rents are based on a hypothetical household's income rather than the actual income of the renter's household, some renters may end up paying more than 30 percent of their income for the unit. In that case, vouchers or other programs may be used to provide additional assistance to the household.

18. 12 C.F.R. §1807.401.

19. Department of Housing and Urban Development, "HTF National Production Reports" (accessed October 24, 2022), hudexchange.info/programs/htf/htf-national-production-reports/. According to HUD, the amounts in that report are based on data self-reported by recipients of HTF grants.

20. Department of the Treasury, Community Development Financial Institutions Fund, "Searchable Awards Database" (accessed October 26, 2022), www.cdfifund.gov/awards/state-awards.

Table 1.

Demographic Characteristics of Residents of Rental Units Completed Using Grants From the Housing Trust Fund

	Number of Units[a]	Percentage of the Total
Income		
30 percent or less of median income	2,905	98
Greater than 30 percent of median income	69	2
Total	**2,974**	**100**
Category of Assistance		
No assistance	775	26
Housing Choice Voucher or Project-Based Rental Assistance program	1,461	49
Other assistance program	737	25
Total	**2,973**[b]	**100**
Household Type		
Single, nonelderly	1,256	42
Elderly	858	29
Single parent	589	20
Other	271	9
Total	**2,974**	**100**
Race		
White	1,752	59
Black or African American	896	30
Other race category	326	11
Total	**2,974**	**100**
Ethnicity		
Hispanic or Latino	319	11
Not Hispanic or Latino	2,655	89
Total	**2,974**	**100**
Household Size		
One person	1,946	65
Two people	460	15
More than two people	568	19
Total	**2,974**	**100**

Data source: Department of Housing and Urban Development (HUD). See www.cbo.gov/publication/58427#data.

a. Fifteen units were vacant at the time of HUD's report.

b. One unit was not accounted for in this category.

spent on projects that have been completed.[21] The total cost of those completed projects—including CMF grants and leverage—was $4.5 billion.

Those completed projects have financed nearly 21,000 rental units (using approximately $139 million in CMF grants), 4,200 owner-occupied properties (using approximately $28 million in CMF grants), and five community facilities (using approximately $1 million in CMF grants). Entities receiving CMF grants since fiscal year 2016 reported that 68 percent of the rental units they developed were for households earning 50 percent or less of the median income for the area and that 92 percent of the owner-occupied units were developed for households earning 80 percent or less of the median income for the area.

An additional $257 million of CMF money has been awarded to projects currently in development or under construction. Those projects are estimated to generate total costs (leverage plus the CMF grant) of approximately $13 billion.

How the Funds Compare With Other Federal Support for Affordable Housing

In addition to providing money from the HTF and CMF, the federal government offers housing voucher programs, rental assistance, block grants, tax credits, and other forms of support for affordable housing. (Some of those programs are much larger than the HTF and CMF programs.)

The various programs differ on many dimensions—whether they support rental housing or homeownership, for instance, whether their support is broad or targeted to people at certain income levels, and whether the support is provided through spending programs or tax expenditures.[22] (For a comparison of federal programs that support affordable rental housing, see Table 2.) In this section of the report, CBO examines two main categories of federal support for rental housing:

- Programs that primarily use demand subsidies, which are designed to help recipients rent a home; and
- Programs that primarily use production subsidies, which are designed to provide an incentive to developers to build new properties or renovate existing ones.

Programs That Primarily Use Demand Subsidies

The housing choice voucher program—the largest federal program supporting affordable rental housing using a demand subsidy—provides federally funded, portable

21. Department of the Treasury, Office of Inspector General, *Audit of the Community Development Financial Institutions Fund's Financial Statements for Fiscal Years 2021 and 2020* (December 2021), https://tinyurl.com/j79tdec5 (PDF).

22. Tax expenditures resemble government spending programs by providing financial assistance to specific activities, entities, or groups of people. For a description of federal programs that assist low-income households, see Congressional Budget Office, *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782, and *An Overview of Federal Support for Housing* (November 2009), www.cbo.gov/publication/41219.

Table 2.

Federal Programs That Support Affordable Rental Housing

Program	Subsidy Type	Budgetary Cost (Billions of dollars) 2009	2021	Description	Key Points of Comparison
Housing Trust Fund	Production	0	0.7	Provides grants to states to increase and preserve the supply of rental housing and homeownership opportunities for low-income families	■ Small, relatively new program ■ Additional oversight and administration for recipients when combined with other programs ■ Fills gap in financing left by other programs or private capital ■ Annual payments to the fund depend on the amount of new guarantees made by Fannie Mae and Freddie Mac, which may make those grants more volatile than other programs ■ Focuses on extremely low-income households, defined as those with income at or below 30 percent of the median income in their area
Capital Magnet Fund	Production	0	0.4	Provides grants to community development financial institutions and nonprofit housing organizations to finance loans and to capitalize funds that support affordable housing	■ Small, relatively new program ■ Additional oversight and administration for recipients when combined with other programs ■ Fills gap in financing left by other programs or private capital ■ Annual payments to the fund depend on the amount of new guarantees made by Fannie Mae and Freddie Mac, which may make those grants more volatile than other programs ■ Draws in private capital through leverage requirement
Housing Choice Vouchers	Demand	16.0	25.4	Provides federally funded, portable vouchers that recipients use to help pay for housing they choose in the private market	■ Large, established program ■ Provides choice for recipients ■ May contribute to rent increases if supply is constrained ■ Some eligible households do not receive a voucher ■ Targeted to very low-income households, defined as those with income greater than 30 percent of the median income in their area but less than or equal to 50 percent of the median income in their area
Project-Based Rental Assistance	Demand	7.5	13.5	Assists tenants by having the federal government pay a portion of their rent for units in designated buildings on the basis of long-term contracts with property owners	■ Large, established program ■ Provides less choice for recipients than Housing Choice Vouchers but creates dedicated units for assisted tenants ■ May contribute to rent increases if supply is constrained ■ Some eligible households do not receive assistance ■ Targeted to very low-income households

Continued

vouchers directly to recipients to help pay for housing they choose in the private market.[23] Assisted households pay a portion of their income to rent properties that are part of the program, and the vouchers cover the balance—up to limits established by HUD each fiscal year on the basis of area rents charged for standard rental housing. In 2021, the federal government spent $25.4 billion on the housing choice voucher program.[24]

A second federal program that supports affordable housing using a demand subsidy is the project-based rental assistance program.[25] That program, which also uses vouchers, assists tenants directly by having the federal government pay a portion of their rent in designated buildings whose owners have long-term contracts with HUD. In 2021, the federal government spent $13.5 billion on the project-based rental assistance program.

Programs That Primarily Use Production Subsidies

To produce affordable rental housing, the federal government relies on several production subsidy programs in

23. For more information, see Department of Housing and Urban Development, "The Housing Choice Voucher Program Guidebook" (accessed April 28, 2022), https://tinyurl.com/37c99ycd.

24. For outlays, see Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2023: Supplemental Materials*, "Public Budget Database" (accessed May 5, 2022), www.whitehouse.gov/omb/budget/supplemental-materials/.

25. For further details, see Department of Housing and Urban Development, "Programs of HUD" (accessed April 28, 2022), www.hud.gov/hudprograms (PDF).

Table 2. Continued

Federal Programs That Support Affordable Rental Housing

Program	Subsidy Type	Budgetary Cost (Billions of dollars) 2009	2021	Description	Key Points of Comparison
Low-Income Housing Tax Credits	Production	8.3	10.4	Allocates tax credits to developers to build new housing units or substantially rehabilitate existing units for low-income households	▪ Large, established program ▪ Draws in private capital not directly related to housing through tax credits ▪ Complex oversight, particularly when combined with other programs ▪ Cost effectiveness varies based on market for tax credits ▪ Income eligibility higher than for public housing, project-based rental assistance, or vouchers
Public Housing	Both	7.7	7.3	Provides publicly owned and operated units for assisted tenants	▪ May provide access to areas without other affordable housing options ▪ Stock of units has declined over time and has a backlog of necessary maintenance ▪ Income eligibility targeted to lower-income households
Community Development Fund, Including Block Grants	Both	6.4	6.8	Supports community and economic development by acquiring property for low-income rental housing	▪ Provides link between housing and other community development initiatives by supporting nonhousing development ▪ Wide range of activities may reduce impact on affordable housing production and retention
HOME Investment Partnerships	Both	1.9	0.9	Provides grants that fund activities including the construction or rehabilitation of affordable housing or the provision of rental assistance to low-income households	▪ Small program ▪ Provides link between housing and other community development initiatives by supporting nonhousing development

Data source: Congressional Budget Office. See www.cbo.gov/publication/58427#data.

addition to the HTF and CMF. Through the low-income housing tax credit, for example, the federal government allocates tax credits to states based on their population (and subject to minimum allocations). States then distribute the credits to developers to construct new housing or substantially rehabilitate existing units for low-income households. In most cases, the developers then sell the credits to investors to raise capital for the development, allowing those investors to lower their federal tax liability over a period of 10 years. According to the staff of the Joint Committee on Taxation, the LIHTC created $10.4 billion in tax expenditures in 2021.[26]

For a developer to be eligible for LIHTCs on a property, the property must meet at least one of three income tests for low-income households. The first test requires that a minimum of 20 percent of the units be occupied by households with income of 50 percent or less of the area's median income (adjusted for family size). The second test requires that at least 40 percent of the units be occupied by households with income of 60 percent or less of the median income for the area (adjusted for family size). The third test allows property owners to average the income of all tenant households to determine eligibility; across all units, at least 40 percent must be occupied by households with an average income no greater than 60 percent of the median income for the area (and no household may have income exceeding 80 percent of the median). In addition, the developer must ensure that for all units, the gross rent received does not exceed 30 percent of either 50 percent or 60 percent of the median income for the area (depending on the income test selected).

Three other rental housing programs use an element of production subsidies as part of their larger scope. In public housing complexes, for instance, units are publicly owned and operated, typically by a local public housing

26. Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2020–2024* (November 2020), www.jct.gov/publications/2020/jcx-23-20/.

agency.[27] Assisted tenants are then required to pay a percentage of their adjusted household income toward rent for those units. Public housing is funded through two mechanisms—an operating fund to cover administrative and maintenance costs and a capital fund to cover costs to develop, finance, and modernize the units. HUD has not provided funding for public housing development since fiscal year 1994. (Instead, lawmakers have provided funding through the two voucher programs.) Public housing accounted for $7.3 billion in spending by the federal government in 2021.

The other two programs—community development block grants and HOME Investment Partnerships—are grant based. In part, community development block grants support community and economic development by funding the acquisition of property for low-income rental housing, but most of those grants support activities that are not related to housing.[28] The HOME Investment Partnerships program provides grants through HUD that fund activities including the construction or rehabilitation of affordable housing or the provision of rental assistance to low-income households. From fiscal year 1992 through the end of May 2022, nearly 1.4 million units of affordable housing were completed using funding from HOME Investment Partnerships, and about 366,000 households were provided tenant-based rental assistance.[29]

Effectiveness of Housing Assistance Programs

Despite the array of housing assistance programs, more than 13 million eligible households do not receive any support, and there is an estimated shortage of 1.5 million rental units that are both affordable and available to low-income households.[30] Bridging that gap requires the best use of available resources. Yet measuring programs' effectiveness at achieving their goals—in comparison with each other and with other programs that have similar goals—is difficult. Although many programs are charged with supporting affordable housing as a policy goal, they cannot easily be directly evaluated against one another or ranked by their observable outcomes or outputs because each has different targets, mechanisms, requirements, and goals.

Difficulty of Measuring Programs' Effectiveness

Comparisons involving projects funded by HTF and CMF grants are particularly difficult, for several reasons. First, although the funds were established in 2008 and payments from the GSEs began in 2015, the number of units completed as a result of the distributions from both funds remains small. Second, the process by which grants are translated into specific units differs between the two types of funds, complicating direct comparisons between the funds. HTF grants are generally passed through states to developers, who build specific units from a combination of those grants and other funds. CMF grants go directly to developers or CDFIs, who use the money to finance affordable housing units through a variety of activities, including direct loans, loan guarantees, and risk-sharing agreements. Third, the programs have different affordability and income requirements for the assisted households.

Comparing the effectiveness of HTF and CMF grants with support provided by other programs, such as the LIHTC program or vouchers, is also difficult because many affordable housing units are developed and rented using a combination of programs. For example, the leverage requirement for a CMF grant to a CDFI can include equity generated through a LIHTC allocation. A 2022 study found that 123 of the 181 projects developed using 2017 grants from the HTF also used LIHTC financing.[31]

Counting the total number of units attributed to each housing assistance program does not take into account how many of those units—particularly those for households

27. Over time, public housing has become less subsidized through production incentives as fewer new units are constructed and existing units are transitioned to voucher programs. See Department of Housing and Urban Development, "Rental Assistance Demonstration" (accessed July 8, 2022), www.hud.gov/RAD.

28. In fiscal year 2020, only 23 percent of those funds were spent on housing. See Department of Housing and Urban Development, Office of Community Planning and Development, *Community Development Fund* (accessed July 8, 2022), https://tinyurl.com/288wuf2m (PDF).

29. Department of Housing and Urban Development, "HOME National Production Reports" (May 2022), https://tinyurl.com/2r8hj5ju.

30. Joint Center for Housing Studies of Harvard University, *America's Rental Housing 2022* (January 2022), www.jchs.harvard.edu/americas-rental-housing-2022.

31. National Low Income Housing Coalition, *The National Housing Trust Fund: An Overview of 2017 State Projects* (September 2022), https://tinyurl.com/5bh6eywb.

that require less support—would have been developed using solely private funds in the absence of federal support.

Comparing the Effectiveness of Two Production Subsidy Programs

Despite those difficulties, some basic comparisons can be made between the housing funds and other programs. For example, CBO compared the HTF and LIHTCs—two production subsidy programs—by examining public data to determine the amount of government funding used for each qualified affordable housing unit. According to HUD, as of the end of September 2022, grants from the HTF have yielded 2,989 completed units that met the program's eligibility and affordability requirements (including those for extremely low-income households).[32] More than half of those completed units (1,743) were newly constructed. On average, each newly constructed unit used about $122,000 in HTF grants (unadjusted for inflation). An additional 1,222 units were rehabilitations of existing units, each using approximately $84,000 in HTF grants, on average (unadjusted for inflation). The remaining 24 units were classified as acquisitions of existing units, at an average cost of about $87,000 each.

Data on the LIHTC program—which does not target extremely low-income households—come from a 2018 report from the Government Accountability Office (GAO).[33] That report includes data on more than 122,000 units in nearly 1,850 projects produced from 2011 to 2015. On average, each newly constructed unit used approximately $159,000 in LIHTC investments, and each rehabilitated unit used about $109,000. (Both figures are in 2015 dollars.) The LIHTC program has more completed units than the number of units financed through HTF or CMF grants—both in total (because it has existed since 1986) and on a per-year basis in recent years—although the comparison should not be considered absolute because the period of analysis for the programs differs (2016 to 2022 for the HTF and 2011 to 2015 for the LIHTC in that example).

The disparity in the amount of funds used to complete an eligible unit in HTF and LIHTC projects—$122,000 versus $159,000 for newly constructed units and $84,000 versus $109,000 for rehabilitated units—may have several sources, including the fact that those amounts are based on different inflation-adjusted bases owing to the availability of underlying data.[34] The total cost of HTF units may be lower than the total cost of units produced using LIHTCs because of a different geographic mix of projects (reflecting differences in local development costs), the size of the units produced, or differences in quality. Alternatively, the amount of leverage—or the ratio of total unit cost to HTF grants—used in an HTF development may be greater than the leverage used for a LIHTC-supported unit. Although the HTF program (unlike the CMF program) does not have a prescribed amount of leverage for each grant, developers may still use leverage to optimize the financing cost of the project. Relatedly, developers might opt to use a larger share of one federal subsidy, such as LIHTCs, relative to another for various reasons, including availability, program requirements, administrative and compliance costs, or the impact of the subsidy on the project's total financing structure.

Comparing the Effectiveness of Production Subsidy and Demand Subsidy Programs

A detailed comparison of the effectiveness of programs using demand subsidies with the effectiveness of those using production subsidies to assist low-income renters is also difficult, although some broader comparisons are possible. (For a review of the literature on the effectiveness of demand and production subsidies, see Box 2.)

One key difference is the duration of affordability. Demand subsidies, such as the housing choice voucher program, provide the funds to support a low-income renter in maintaining shelter for a single year. Production subsidies, such as the projects financed by the HTF and CMF or by the LIHTC, are designed to generate properties that are affordable for several years to low-income renters earning a certain percentage of the median income for the area. HTF properties must be affordable to extremely low-income households for up to 30 years. CMF properties must be affordable for up to 10 years, primarily to households with income equal to or less

32. Department of Housing and Urban Development, "HTF National Production Reports" (accessed October 24, 2022), hudexchange.info/programs/htf/htf-national-production-reports/.

33. Government Accountability Office, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, GAO-18-637 (September 2018), www.gao.gov/products/gao-18-637.

34. CBO does not have the project-level data necessary to place the LIHTC and HTF funds on a consistent inflation-adjusted basis; that adjustment would probably increase the amount of LIHTC funds used.

Box 2.

A Brief Comparison of Demand and Production Subsidies in the Research Literature

Several studies describe the circumstances under which demand subsidies (programs that assist renters directly) and production subsidies (programs geared toward developers to spur the creation or rehabilitation of units) are more or less effective.[1]

In general, the research literature shows that demand subsidies work best in markets where they trigger the production of additional rental units. Otherwise, those subsidies may increase rents (for assisted and unassisted households) on the limited supply of available units.[2] Production subsidies, by contrast, work best in markets where purely private developers are generating an inadequate supply of affordable housing. Otherwise, those subsidies may result in fewer privately produced units, which will have higher costs for developers than units financed with production subsidies.[3]

The literature also posits that different types of subsidies are expected to provide greater benefits to certain types of households. In those studies, demand subsidies are shown to work best for smaller households and those with income close to the affordability threshold. Certain production subsidies are shown to work best for larger households, those with a special need—households with elderly residents or people with disabilities, for example—and those with extremely low income.[4]

1. Department of Housing and Urban Development, Office of Policy Development and Research, *Targeting Housing Production Subsidies: Literature Review* (prepared by Abt Associates, December 2003), https://tinyurl.com/4dpfj3yr.
2. Todd Sinai and Joel Waldfogel, "Do Low-Income Housing Subsidies Increase the Occupied Housing Stock?" *Journal of Public Economics*, vol. 89, no. 11–12 (December 2005), pp. 2137–2164, https://doi.org/10.1016/j.jpubeco.2004.06.015.
3. Stephen Malpezzi and Kerry Vandell, "Does the Low-Income Housing Tax Credit Increase the Supply of Housing?" *Journal of Housing Economics*, vol. 11, no. 4 (December 2002), pp 360–380, https://doi.org/10.1016/S1051-1377(02)00123-7.
4. Denise DiPasquale, Dennis Fricke, and Daniel Garcia-Diaz, "Comparing the Costs of Federal Housing Assistance Programs," *Economic Policy Review*, vol. 9, no. 2 (June 2003), pp. 147–166, https://tinyurl.com/yfztepjc.

than 120 percent of the median income for the area. LIHTC properties must be affordable for households with income equal to or less than either 60 percent or 30 percent of the median income for the area for up to 30 years.

Another key difference is cost per household. Housing choice vouchers cost the federal government approximately $25 billion per year and assist about 2.3 million households, resulting in a cost per household of approximately $11,000 per year.[35] The one-time cost per household for units developed using HTF grants and LIHTCs ranges from approximately $84,000 to $159,000—depending on the program and whether the project is rehabilitating existing units or building new units.

35. For cost data, see Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2023: Supplemental Materials*, "Public Budget Database" (accessed May 5, 2022), www.whitehouse.gov/omb/budget/supplemental-materials/. For usage estimates, see Joint Center for Housing Studies of Harvard University, *America's Rental Housing 2022* (January 2022), www.jchs.harvard.edu/americas-rental-housing-2022.

Although a quantitative comparison of the effectiveness of the approaches would require a number of judgments that are beyond the scope of this report, aspects of the methodology can be discussed. For example, calculating the multiyear cost of housing choice vouchers (as a present value) should include expected increases in rental costs (which would drive up per-household costs for each voucher to maintain the same level of support) and a discounting approach (because expected voucher payments in future years are less valuable in current dollars). Calculating the multiyear cost of a property financed using HTF grants or another type of production subsidy would also require estimates related to depreciation and any money for operating costs provided by the fund to assist with utilities, maintenance, or other ongoing expenses. In addition, housing choice vouchers are a discretionary program, meaning that future support for each assisted household could be eliminated, reduced, or increased as part of the annual appropriations for the program.

This report was prepared to enhance the transparency of the work of the Congressional Budget Office. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Mitchell Remy wrote the report with guidance from Sebastien Gay. Elizabeth Cove Delisle, Michael Falkenheim, Zunara Naeem, Jennifer Shand, Jon Sperl, Aurora Swanson, and Natalie Tawil contributed to the analysis and offered comments.

Michael Bodaken (formerly of the National Housing Trust), Michael Stegman (of the Urban Institute and Duke University), and Ed Gramlich, Sarah Saadian, and Diane Yentel (of the National Low Income Housing Coalition) commented on an earlier draft. The assistance of external reviewers implies no responsibility for the final product; that responsibility rests solely with CBO.

Robert Sunshine reviewed the report. Christine Bogusz edited it, and R. L. Rebach created the graphics and prepared the text for publication. The report is available at www.cbo.gov/publication/58427.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

Phillip L. Swagel
Director