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H.R. 2895 – National Affordable Housing Trust Fund Act of 2007

EXECUTIVE SUMMARY

Representative Barney Frank (D-MA) introduced the National Affordable Housing Trust Fund Act of 2007, on June 28, 2007. The Financial Services Committee approved the bill, as amended, by a vote of 45 to 23 on July 31, 2007. It will be considered on the floor under a structured rule on October 10, 2007.

H.R. 2895 establishes a National Affordable Housing Trust Fund to provide housing assistance to low-income individuals and families. Money for the trust fund would derive from several sources, including: 1) Fannie Mae and Freddie Mac; 2) surplus funds from the Federal Housing Administration (FHA); and 3) Congressional appropriations.

The Administration has threatened to veto the bill, arguing that the program is duplicative of other current housing programs. Concerns have also been raised regarding the negative impact of financing the trust fund through receipts from the FHA and from Fannie Mae and Freddie Mac profits, which the Republican Views section of the Committee Report called a “middle-class mortgage tax.”

The Congressional Budget Office estimates that the bill will not impact direct spending or revenues because “by itself it would result in no transfers, deposits, or appropriations.” However, it is important to note that the funding authority for the trust fund is provided by 2 bills that passed the House earlier this year, H.R. 1427 and H.R. 1852. CBO estimates that these sources would provide approximately $900 million per year.

FLOOR SITUATION

H.R. 2895 is being considered on the floor pursuant to a structured rule. The rule:

- Provides one hour of general debate equally divided and controlled by the Chairman and Ranking Republican Member of the Financial Services Committee.
- Waives all points of order against consideration of the bill except those arising under clause 9 (earmarks) and 10 (PAYGO) of Rule XXI.
- Provides that the amendment in the nature of a substitute recommended by the Financial Services Committee shall be considered as an original bill for the purposes of further amendment and shall be considered as read.

- All points of order against the committee amendment in the nature of a substitute are waived except for clause 10 (PAYGO) of rule XXI. This waiver does not affect the point of order available under clause 9 of rule XXI (regarding earmark disclosure).

- Makes in order only those amendments printed in the Rules Committee report.

- Provides one motion to recommit with or without instructions.

- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the bill to a time designated by the Speaker.

H.R. 2895, the National Affordable Housing Trust Fund Act of 2007, was introduced by Representative Barney Frank (D-MA) on June 28, 2007. The Financial Services Committee approved the bill, as amended, by a vote of 45 to 23 on July 31, 2007.

The bill is expected to be considered on the floor on October 10, 2007.

SUMMARY

H.R. 2895 establishes a National Affordable Housing Trust Fund to provide housing assistance to low-income individuals and families.

<u>Trust Fund Deposits</u>: Money for the trust fund would derive from several sources, including: 1) Fannie Mae and Freddie Mac (based on a percentage of their total mortgage portfolio); 2) surplus funds from the Federal Housing Administration (FHA); and 3) Congressional appropriations.

Note: According to the Republican Views section of the Committee Report, using money from Fannie Mae, Freddie Mac, and the FHA "would translate into a tax on middle-income homeowners seeking to purchase a home or refinance an existing mortgage…"

<u>Trust Fund Allocations</u>: The Trust Fund would allocate 60 percent of its resources to participating local jurisdictions and 40 percent to states, Indian tribes, and insular areas.

Note: Insular areas are defined as Guam, the Northern Mariana Islands, the U.S. Virgin Islands, and American Samoa.

<u>Trust Fund Assistance</u>: Money from the Trust Fund will be allocated by a formula developed by the Secretary of Housing and Urban Development (HUD). According to the bill, the formula must be based on the following factors:

- Population;
- Percentage of families living in substandard housing;
- Percentage of families that spend more than 50 percent of their annual income on housing;
- Percentage of individuals living at or below the poverty line;
- Construction costs;
- Percentage of population living in areas with extremely low vacancy rates;

- Percentage of area housing that is extremely old; and
- Amount of increase in affordable rental housing due to the jurisdiction's efforts.

If HUD fails to develop this formula, the formula used under the HOME program would serve as the default.

Eligible Recipients: Only families earning below 80 percent of state or local median income are eligible for assistance, except that in any year in which nationwide funding is less than $2 billion, all funds must be used for the benefit of families below 60 percent of local area median income. At least 75 percent of the funding must go to families earning below either 30 percent of the local median income or the national poverty line, whichever is higher. Families eligible for the Supplemental Security Income program must receive at least 30 percent of the funding. At least 10 percent of the funding must go to families earning 50 percent of the local median income.

Selection Criteria for Assistance: Each grantee must develop an allocation distribution plan that incorporates the following criteria:

- Merits of the proposal;
- Experience of the applicant in carrying out similar projects;
- Ability of the applicant to utilize the funds in a timely manner and to leverage funds from private and other non-Federal sources;
- Extent of local assistance that will be provided;
- Location of the project with regards to public transportation, employment opportunities, child care; community revitalization projects; vacancy availability; age of neighboring housing; and diversity of neighborhood income;
- Extent that local assistance will be accessible to persons with disabilities;
- Incorporation of energy efficiency standards; and
- Ability of the applicant to maintain the dwellings as affordable housing.

Nonprofit and Public Entities: Uncommitted or unused Trust Fund money will be available as a competitive grant for nonprofit and public entities.

Uses of Assistance: Money from the Trust Fund can be used for construction; acquisition of property; site preparation and improvement (including demolition); housing rehabilitation; rental assistance; down payment or closing cost; and providing incentives to maintain existing housing as affordable housing.

Matching Funds: The bill requires recipients to provide matching funds of 25 percent of the amount received when using state or locally controlled federal assistance. It grants a lower matching amount, 12.5 percent, if the recipients use state, local, or private resources.

Prohibitions: The bill prohibits funds from being used for political activities, advocacy, lobbying, counseling services, travel expenses, or preparing or providing advice on tax returns.

Note: Despite these prohibitions, Financial Services Committee Republicans expressed concerns that Trust Fund money could be manipulated for political gain or utilized to payback political allies.

Davis-Bacon: The bill extends federal Davis-Bacon "prevailing wage" requirements to all contracts receiving assistance.

Enforcement: Grantees are required to monitor projects to ensure that funds are being used according to the requirements. Agreements between the grantee and the recipient must include appropriate reporting, recordkeeping, and auditing requirements. HUD is given the authority to penalize violators who misuse funds by barring them from receiving assistance from the Trust Fund and by forcing them to repay misused assistance.

BACKGROUND

Earlier this year, the House passed two bills, H.R. 1427 and H.R. 1852, which included funding authorizations for a Housing Trust Fund. H.R. 2895 would utilize this funding by establishing the National Affordable Housing Trust Fund, which would wall off money in the Treasury for low-income housing assistance.

The funding would be generated from several sources, including: 1) Fannie Mae and Freddie Mac; 2) surplus funds from the Federal Housing Administration (FHA); and 3) Congressional appropriations. The Congressional Budget Office estimates that sources #1 and #2 would provide approximately $900 million per year.

HUD currently runs more than 30 different federal programs promoting housing for low-income Americans. The majority of HUD's $35 billion budget goes to pay for these programs.

COST

According to the Congressional Budget Office, the bill prohibits fee increases for certain FHA guarantees, which would cost an estimated $192 million in lost revenue collections over the next five years. The bill, however, will not impact direct spending or revenues because "by itself it would result in no transfers, deposits, or appropriations."

CBO Estimate - H.R. 2895, National Affordable Housing Trust Fund Act of 2007

ADDITIONAL VIEWS

The Administration has threatened to veto the bill because it creates a "duplicative program" that could "jeopardize the solvency of the FHA insurance in the long term" and would "create an undue and counterproductive reliance on Fannie Mae and Freddie Mac." (Statement of Administration Policy on H.R. 2895, 10/09/2007)

"A new trust fund would require HUD to devise and administer a new set of rules and regulations, diverting resources away from its other established affordable housing programs…creating a new federal bureaucracy is not, in our view, the best course for achieving [affordable housing for lower-income Americans]." (Republican Views of the Committee Report, 10/02/2007)

AMENDMENTS
(Below are the summaries of the amendments that were made in order by the Rules Committee and may be offered on the floor of the House of Representatives)

1) Rep. Frank (D-MA): This amendment would establish a state minimum allocation percentage, under which every state will receive at least one half of one percent (.5%) of the total funds available each year that are allocated to states, Indian Tribes, and insular areas. Allocations to all other states would be reduced pro rata to bring these states up to this .5% minimum. The amendment would also provide that the local jurisdiction in each state that is slated to receive the largest amount by formula in such state would be entitled to receive such funds directly [notwithstanding the bill's provision that jurisdictions entitled to less than $750,000 by formula shall have their funds reverted to their state in any year that nationwide funding is less than $2 billion]. The amendment includes a technical clarification to ensure that the mixed income limitation capping the number of units initially rented to extremely low income families at 50% applies to all of the units in a project [not just those units assisted by trust fund dollars]. The amendment would provide that the exception to the mixed income rule applies to all "elderly only" projects, not just those projects of 25 or fewer units. Finally, the amendment would provide that nothing in the bill allows any payment under the bill for any individual or head of household that is not a legal resident.

2) Rep. Frank (D-MA): This amendment would add additional flexibility to permitted fund uses, by allowing a grantee to use up to 10% of their funds for project operating accounts to cover shortfalls for projects assisted with trust fund dollars, to facilitate affordability for families below the SSI income limit.

3) Rep. Alcee Hastings (D-FL): This amendment would amend the Affordable Housing Trust Fund homeownership counseling criteria to include flood or other disaster specific insurance in applicable regions.

4) Rep. Inslee (D-WA): This amendment would include among the factors for consideration in selecting applicants to receive Trust Fund grant amounts, a consideration of the extent to which the design, construction, and operation of the housing reduces utility costs for residents.

5) Rep. Woolsey (D-CA): This amendment would allow grantees to give preference to public employees, including first responders and teachers, who cannot afford to live in high-cost areas. These workers would have to meet the income eligibility requirements stated in the text of H.R. 2895.

6) Rep. Langevin (D-RI): This amendment would direct the Secretary of Housing and Urban Development to establish an internet-based "Green Housing Clearinghouse" including best practices, technical recommendations and other informational material regarding green building techniques. Additionally, grantees would be required to self-certify how many of the total units they built with money from the national affordable housing trust fund were green.

7) Rep. Van Hollen (D-MD): This amendment would provide that, for the purpose of increasing accountability, previous grant recipients applying for new grants must include in their applications progress reports for projects for which they used funds in the previous fiscal year.

8) Rep. Neugebauer (R-TX): Amendment in the Nature of a Substitute. This substitute amendment would establish a National Affordable Housing Grant Fund program within the HOME program, which is currently administered through the U.S. Department of Housing and Urban Development.

STAFF CONTACT
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