Insight

The Housing Trust Fund is No More in Trump's Budget

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Among the dozens of programs being completely eliminated in President Trump's 2018 budget are the Housing Trust Fund (HTF) and the Capital Magnet Fund (CMF), which will reportedly reduce the deficit by $2.8 billion over the next ten years. Deficit reduction aside, eliminating funding for these two programs is good policy for taxpayers and the soundness of the housing finance system, especially Fannie Mae and Freddie Mac (the GSEs).

The HTF and CMF were established in 2008 as a part of the Housing and Economic Recovery Act, which requires the GSEs to set aside 4.2 basis points of each dollar of unpaid principal balance of their total new business purchase and then allocate that amount to the Funds the following fiscal year. The funding is split with 65 percent going to the HTF and 35 percent going to the CMF.

In 2014, the Federal Housing Finance Agency (FHFA), the overseer of the Funds, lifted its suspension of GSE allocations, directing them to set aside funding for the next fiscal year. Last year, the GSEs made their first distribution to the HTF, totaling $186 million, and earlier this year, the HTF allocated $173.6 million of that to the states and state-level housing agencies to increase and maintain the supply of affordable rental housing and boost homeownership for low-income Americans.

Exactly how much goes to which state is based on several factors developed by the Department of Housing and Urban Development (HUD). Specifically, HUD will weigh:

- State's relative shortage of rental housing for extremely low-income families (weighted 50 percent);
- State's relative shortage of housing for very low-income families (weighted 12.5 percent);
- State's relative number of extremely low-income families in substandard, overcrowded or unaffordable housing (weighted 25 percent);
- State's relative number of very low income families in substandard, overcrowded or unaffordable housing (weighted 12.5 percent);
- Local construction costs; and
- Minimum allocation per state of $3 million (does not apply to U.S. territories).

Upon allocation, at least 80 percent of the funds must be used for rental housing; up to 10 percent of the funds can be used for homeownership programs, and 10 percent may be used to cover recipients' administrative and planning costs. In this year's allocation, California received the most with $10,156,439; New York received the second most with $7,033,924, and a total of 36 states received the minimum $3 million. Although the allocations are still fairly recent, there has been little to no accountability of how the money is being spent.

Among other concerns about GSE distributions to the HTF, taxpayer-backed support for affordable housing is redundant with Congressionally-appropriated funding of over 30 other housing programs. In 2010, the Government Accountability Office (GAO) found that the federal government "incurred about $170 billion in obligations for federal assistance and foregone tax revenue in FY10" to provide housing aid to homebuyers, renters, and state and local governments. The complexity of existing federal support has raised doubts about their costs, effectiveness, and efficiency by which the government aims to meet housing affordability goals. The HTF adds to that complexity without reforming existing programs with similar goals.

Further, GSE allocations to the HTF ignore statutory obligations and obligations to taxpayers. FHFA is statutorily required to "preserve and conserve GSE assets," suspend any allocations that contribute to "financial instability," and put the GSEs in a "sound and solvent condition." Transferring hundreds of millions from the GSEs increasingly low reserves does exactly the opposite. And with all net income from the GSEs swept to the Treasury Department, allocations to the HTF reduce the amount of those sweeps, which are meant to compensate taxpayers for the risks they take in supporting the GSEs.

Lastly, the unsustainable nature of GSE conservatorship undermines the efficacy of the HTF and discourages real housing finance reform. The HTF was created to establish a stable, permanent source of funding for affordable housing (also why it was not put under the Congressional appropriations process). However, using the GSEs as its sole source of funding is counterproductive to that goal. With much debate surrounding the future of the GSEs, conservatorship, and the housing finance system as a whole – including some support for eliminating the GSEs in their entirety, relying on them to fund federal programs further dissuades lawmakers from tackling real housing finance reform. Growing the GSEs would mean more money for the HTF despite simultaneously increasing the risks to taxpayers.

Reducing the deficit by $2.8 billion is reason enough to support President Trump's budget removing the HTF, but the long-term benefits of nixing the Funds should far outweigh even that. Hopefully the administration sees this as a first step to advancing comprehensive housing finance reform as well.