National Housing Trust Fund: Funding

By Sheila Crowley, President and CEO, National Low Income Housing Coalition

The National Housing Trust Fund (NHTF) was established in July 2008 as part of the Housing and Economic Recovery Act of 2008 (HERA). This law requires Fannie Mae and Freddie Mac to set aside 4.2 basis points their volume of business each year for the National Housing Trust Fund (NHTF) and Capital Magnet Fund (CMF). The NHTF is to receive 65% and the CMF 35%. While this requirement was temporally suspended when the companies were taken into conservatorship in September 2008, the suspension was lifted in December 2014. The companies have been directed to begin setting aside the funds on January 1, 2015 and make them available for distribution 60 days after December 31, 2015.

The HERA statute also permits Congress to designate other “appropriations, transfers, or credits” to the two funds. This provision provides the statutory authority for dedicated sources of funding for the NHTF in addition to the assessment on Fannie Mae and Freddie Mac.

Securing permanent, dedicated sources of revenue for the NHTF is NLIHC’s top priority. Our goal is to raise sufficient funds to expand the affordable housing options for 3.5 million extremely low income households over ten years. Although ambitious, an investment of this magnitude is possible without increasing the federal deficit, simply by better allocating the total subsidies that the federal government currently provides for housing through direct spending and tax expenditures.

The first funding for the NHTF will begin in 2016 unless NHTF detractors in Congress succeed in stopping it. In the meantime, NLIHC is pursuing two other avenues for funding to take the NHTF to the scale that the unmet need requires.

FANNIE MAE’S AND FREDDIE MAC’S OBLIGATION TO THE NHTF

See also: *Fannie Mae, Freddie Mac, and Housing Finance Reform*

The Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to begin setting aside funds for the NHTF and the CMF during 2015. They are to make the funds available with 60 days of the end of 2015. While the statute calls for 65% of the funds to be transferred to HUD for the NHTF and 35% to the Department of the Treasury for the CMF, in the first year, the first 25% will be diverted to the Hope Reserve Fund. This is a fund to protect the taxpayers from losses in the Hope for Homeowners Program, also created in HERA. It is expected that the funds from the first year will be sufficient for this purpose.

Based on their total business in 2014, 4.2 basis points equals $385 million. If the 2016 allocations to the NHTF and CMF were based on the 2014 volume of business, the NHTF would receive $188 million and the CMF would receive $101 million. Both companies are expected to increase their volume of business in 2015. However, in the Administration’s proposed FY16 budget, 4.2 basis points in 2015 is estimated to be $245 million. NLIHC and others think this amount is too conservative. The final number will not be known until early 2016.

Based on the formula for distribution defined in the statute and the regulations, NLIHC has estimated how much each state would receive based on $250 million and $500 million for the first year. These estimates can be found at are at http://nlihc.org/sites/default/files/StateAllocations_0115.pdf .

Unfortunately, FHFA’s decision to lift the suspension on the funding for the NHTF and CMF has provoked a backlash from some members of the House of Representatives who object to the NHTF in general and funding it by the assessment on Fannie and Freddie in particular. On January 28, 2015, Representative Ed Royce (R-CA) introduced H.R. 574, a bill to prohibit contributions by Fannie Mae and Freddie Mac to the NHTF and CMF as long as Fannie Mae and Freddie Mac remain in conservatorship or receivership. The bill had 12 cosponsors when introduced. Other measures to block the funding are expected.

HOUSING FINANCE REFORM

See also: *Fannie Mae, Freddie Mac, and Housing Finance Reform*

Fannie Mae and Freddie Mac serve as the secondary mortgage provider for many mortgages made in the United States. In the wake of the financial meltdown precipitated by the foreclosure crisis in 2008, the federal government had to take them over. They were taken into conservatorship by their regulator, the Federal Housing Finance Agency (FHFA), a status that continues today.

The Obama Administration, many Members of Congress, and numerous analysts and pundits want to end the conservatorships, wind down Fannie Mae and Freddie Mac, and establish a new model for the secondary mortgage market. While some would like to nationalize the housing finance system and others would like to privatize it, most agree that a hybrid system of private capital backed by federal mortgage insurance is the preferred approach.

As Congress and the Administration moved toward housing finance reform in the last Congress, NLIHC and all NHTF supporters worked to assure that the NHTF was included in any new housing finance system and that the new system resources provide robust funding for the NHTF. Three bills emerged that provided significant new resources for the NHTF.

- Senate Committee on Banking, Housing, and Urban Affairs Chair Tim Johnson (D-SD) and Ranking Member Mike Crapo (R-ID) worked together to introduce a bipartisan housing finance reform bill that would have would down Fannie Mae and Freddie Mac, and created a new Federal Mortgage Insurance Corporation (FMIC) to provide government backing to mortgage securities that meet certain criteria. S. 1217 provided for a 10 basis point fee applied to these securities that would be used to fund the NHTF, the CMF, and a new Market Access Fund (MAF). This fee was estimated to eventually generate $5 billion a year. The Johnson-Crapo bill would allocate 75% of the amounts collected through this fee to the NHTF, estimated to be $3.75 billion a year.
- House Committee on Financial Services Ranking Member Maxine Waters (D-CA) released draft housing finance reform legislation entitled "Housing Opportunities Move the Economy (HOME) Forward Act of 2014." Her bill also would wind down Fannie Mae and Freddie Mac, but would replace them with a newly created lender-owned cooperative, the Mortgage Securities Cooperative (MSC). Like the Johnson-Crapo bill, the Waters bill would require a 10 basis point fee assessment on users of the new system and direct 75% of the amounts collected to the NHTF. No bill was introduced.
- Representatives John Delaney (D-MD), John Carney (D-DE), and Jim Himes (D-CT) introduced H.R. 5055, the "Partnership to Strengthen Homeownership Act of 2014," which also would gradually eliminate Fannie and Freddie and replace them with a beefed-up Ginnie Mae that would be a stand-alone agency, no longer part of HUD. Their bill also included the 10 basis point assessment with 75% to the NHTF, but because they added all Federal Housing Administration (FHA) insured mortgages to those covered by the new system, the fee was estimated to generate another $1 billion a year, for a total of $6 billion or $4.5 billion a year for the NHTF.

NLIHC has estimated state allocations if $5 billion becomes available for the NHTF, http://nlihc.org/sites/default/files/NHTF_State_Allocations_5bill.pdf.

The Johnson-Crapo bill was voted out of the Senate Banking Committee on May 15, 2014 by a bipartisan vote of 13-9.The Obama Administration fully endorsed the bill. But the bill was criticized by the right and the left for doing too much or not enough to assure access to mortgages to all credit worthy borrowers and was never taken up by the full Senate.

Also introduced in the 113th Congress was H.R. 2767, the "Protecting American Taxpayers and Homeowners (PATH) Act of 2013." Its author was House Financial Services Committee Chair Jeb Hensarling (R-TX). The PATH Act would do away with and not replace Fannie Mae and Freddie Mac. It would also eliminate the NHTF and the CMF. The bill was voted out of the Financial Services Committee on July 23, 2013 by a partisan vote of 30-27. Two Republicans and all Democrats opposed the bill. The bill was not taken up by the full House. It was opposed by virtually every segment of the housing industry.

As the *Advocate's Guide* goes to press, it is too early to make predictions about prospects for housing finance reform in the 114th Congress. Some things for advocates to keep in mind are:

- The Senate Banking Committee has a new Chair, Senator Richard Shelby (R-AL), and a new Ranking Member, Senator Sherrod Brown (D-OH). Both voted against the Johnson-Crapo bill in 2014. It remains to be seen if the committee will work on housing finance reform this year.
- Chairman Hensarling is expected to introduce a housing finance reform bill again, but there is speculation that it will be more moderate than the PATH Act in order to attract more support from moderate Republicans and Democrats.
- Representatives Delaney, Carney, and Himes likely will introduce an updated version of their bill from the last Congress.
- The pressure for reform and replacing Fannie Mae and Freddie Mac is mitigated somewhat by the fact that under conservatorship, most of their profits (tens of billions of dollars) are going to the federal Treasury, helping to reduce the deficit.
- **Most importantly**, low income housing advocates must be **vigilant to protect the gains** made on the NHTF in the Johnson-Crapo, Waters, and Delaney-Carney-Himes bills in the last Congress.

MORTGAGE INTEREST DEDUCTION REFORM

See also: *Mortgage Interest Deduction Reform*

While dedicated revenue from the current and future housing finance system is the most immediate route to funding for the NHTF, it is essential to secure significantly more revenue if the NHTF is to fully address the national shortage of housing that extremely low income people can afford. The place to find revenue of that magnitude is in the tax code. If tax expenditures that subsidize higher income homeowners were modified to make them fairer and flatter, it is possible to generate the level of revenue needed to end homelessness and assure housing security for very poor people.

The mortgage interest deduction (MID) has long been considered an untouchable portion of the tax code, but changes to the MID are now part of the debate on comprehensive tax reform and deficit reduction. Polling shows broad public support for modifying, not eliminating, the MID. The challenge for housing advocates is assure that a significant share of any revenue raised by changing the MID stays in housing.

The United for Homes campaign led by NLIHC proposes two modest changes to the MID. First, we would reduce the size of a mortgage eligible for a tax break from $1 million to $500,000, i.e. the interest on only the first $500,000 of a mortgage would be deductible. Second, we would convert the deduction to a 15% non-refundable tax credit. We would direct all revenue raised from these changes, estimated to be $230 billion over ten years, to the NHTF.

Not only would these changes produce revenue for the NHTF, they would also make the tax code work better for low and moderate income homeowners. All homeowners with mortgages would be eligible for tax breaks, not just those who have enough income to file itemized tax returns. Under this proposal, the number of homeowners with mortgages who would get tax breaks would increase from 39 million to 55 million, with 99% of the increase being households with incomes less than $100,000 a year.

Representative Keith Ellison (D-MN) introduced H.R. 1213, the “Common Sense Housing Investment Act of 2013,” in the 113th Congress. His bill mirrored the United for Homes campaign proposal to reform the MID and directs most of the revenue raised to the NHTF. The United for Homes campaign supported H.R. 1213. The bill had 16 co-sponsors at the close of the 113th Congress. He is expected to introduce the same bill early in the 114th Congress.

Numerous observers think the mortgage interest deduction is ripe for reform, but only as part of comprehensive tax reform. It remains to be seen if the new Congress and the Obama Administration will be able to come to agreement on comprehensive tax reform. However, comprehensive tax reform is inevitable. When it does occur, the MID will change. It is imperative that all housing advocates speak in one voice to make sure that savings gained from MID reform be kept in housing and be used to address the long neglected housing needs of extremely low income renters. We cannot wait until reform is about to occur. The groundwork must be laid now.

HOW ADVOCATES CAN TAKE ACTION

On Fannie Mae's and Freddie Mac's Obligation to the NHTF

- Advocates should urge their Representatives to oppose H.R. 574, the bill to prohibit contributions by Fannie Mae and Freddie Mac to the NHTF.
- Advocates should be actively engaged in the process of NHTF implementation in their states to assure that the first round of funding is successful.

On Housing Finance Reform

- Advocates should urge their Senators and Representatives to support housing finance reform legislation that maximizes resources to the NHTF and oppose any housing finance reform legislation that would negatively impact the NHTF.

On Mortgage Interest Deduction Reform

- Advocates should urge their Representatives to co-sponsor Representative Ellison's Common-Sense Housing Investment Act when it is introduced.
- Advocates should support inclusion of the proposed MID changes in any comprehensive tax reform package, and make sure a significant portion of the new revenue goes to NHTF. ■

FOR MORE INFORMATION, GO TO:

www.NHTF.org

www.UnitedforHomes.org