

# Housing Policy: Exploring the Challenges, Opportunities, and Governmental Responses to America's Housing Crisis

A Federal Policy Primer

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SUMMIT STRATEGIES GOVERNMENT AFFAIRS  
440 1ST STREET NW, STE 440  
WASHINGTON DC 20001  
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## Supplemental Material: CARES Act Housing Provisions

While the majority of this white paper examines the existing federal housing policy infrastructure, this section highlights the relevant housing policy provisions of the recently enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act is the most substantial fiscal stimulus in U.S history, providing more than \$2 trillion to bolster the healthcare system, support households, and alleviate budgetary issues for state and local governments. The measure includes supplemental funding for critical federal housing resources, such as the Community Development Block Grant (CDBG) and various rental assistance programs. The package provides relief for renters and homeowners with federally backed loans through eviction protection, mortgage forbearance, and renter protections.

The bill provides the CDBG program with an added \$5 billion, approximately \$1.6 billion more than the program received through FY2020 appropriations. The additional funding includes \$2 billion for states and units of local governments that typically receive CDBG formula funding and \$1 billion to state governments to support a coordinated response across entitlement and non-entitlement communities. The remaining \$2 billion goes to states and units of local government based on the prevalence and risk of COVID-19 and related economic and housing disruption. Additionally, the legislation removes the cap on funds that a CDBG grantee can spend on public services. It also allows CDBG grantees to be reimbursed for COVID-19 response activities, regardless of when the costs occurred.

The legislation provides \$4 billion for the Emergency Solutions grant program, which aids local leaders' efforts to alleviate homeless issues in their communities. \$2 billion of the funding goes to states and units of local government that received an allocation under the FY2020 formula, and the other \$2 billion supports states and units of local government with the most significant need. Additionally, the bill includes \$1 billion for the Project-Based Rental Assistance and \$1.25 billion for the Tenant-Based Rental Assistance programs to provide critical aid for low-income renters.

The CARES Act includes provisions to aid homeowners with federally backed loans and renters in federally subsidized dwellings. Individuals with single-family mortgages can request mortgage forbearance and late payment fee forgiveness from their loan servicer for 180 days due to COVID-19-related difficulties. Additionally, mortgage servicers cannot initiate foreclosure sales for the next two months, beginning on March 18, 2020. The Government National Mortgage Association will provide stopgap payments to mortgage servicers to cover the shortfall from missed payments. Renters, in federally subsidized units, also receive 120 days of eviction protection.

## Introduction to the Existing Federal Housing Policy Infrastructure

Housing has become one of the most pressing issues in the country, impacting federal, state, and local governments, prompting lawmakers to consider ways to alleviate rising rental costs and growing housing scarcity. Paradoxically, the areas with the most acute housing challenges tend to be those that are fast-growing and otherwise prosperous. In high-growth areas, like the Pacific Northwest and Bay Area, housing shortages have created a significant homeless problem that remains at the top of local elected officials and citizens' minds. As the federal government continues to develop programs and resources to support low-income housing security, provide resources to local governments, and

facilitate land management best practices, this white paper explores the challenges and opportunities facing local governments.

## History of Federal Housing Policy

Significant federal intervention in the housing market began in the wake of the Great Depression. With the construction industry collapsing and financial institutions failing to provide adequate credit to potential homeowners, Congress and the Roosevelt administration responded by establishing programs to address housing market failures. These initial efforts paved the way for a robust programmatic foundation that produces a variety of subsidies for individuals and funding opportunities for state and local governments that exist today.

### The Federal Housing Administration, Public Housing, and the Government's Evolving Role

In response to the economic devastation of the Great Depression, widespread unemployment in the construction industry, and a less than fifty-percent homeownership rate in the US, Congress passed the National Housing Act of 1934, which established the Federal Housing Administration (FHA).<sup>1</sup> FHA played a critical role in improving and standardizing housing construction practices and the private-sector mortgage underwriting process.<sup>2</sup> Regulated interest rates and other lending terms facilitated increased homeownership in the US. Four years later, Congress enacted the Housing Act of 1937, which created the United States Housing Agency, the predecessor of the Department of Housing and Urban Development (HUD), to provide funding to localities to support low-income and public housing construction.

Initial housing legislation focused on public housing and the challenges afflicting low-income families. However, by the end of the 1950s and early 1960s, Congress began to focus on middle-class families who could not qualify for low-income assistance programs but lacked the resources to navigate the private housing market. Congress continued updating the federal housing policy framework throughout the 1950s and 1960s and established HUD through the Housing and Urban Development Act of 1965, which provided middle-class targeted benefits.<sup>3</sup> After successful efforts to shift federal investment away from low-income assistance, public investment in housing programs began to decline. Despite these developments, Congress passed the 1986 Tax Reform Act, which created the Low-Income Housing Tax Credit (LIHTC) program. LIHTC continues allocating tax credits for affordable housing development to this day.<sup>4</sup>

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<sup>1</sup> National Archives Catalogue, *Act of June 27, 1934 ("National Housing Act")*, Public Law 479, 48 STAT 1246, National Archives Catalogue

<sup>2</sup> M. McCarthy, L. Perl, K. Jones, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, March 2019

<sup>3</sup> M. McCarthy, L. Perl, K. Jones, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, March 2019

<sup>4</sup> Mark Keightley, *An Introduction to the Low-Income Housing Tax Credit*, Congressional Research Service, February 2019

## Challenges to Homeownership as the Primary Wealth Building Asset

While homeownership provided the G.I Generation's middle-class an opportunity to accumulate significant wealth, the inadequacies of this investment strategy became abundantly clear in the aftermath of the Great Recession of the late 2000s. When home prices fell dramatically, trillions of dollars of wealth disappeared. In response to the lending practices that facilitated the Great Recession, Congress enacted the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, which created new rules for mortgage lending to stabilize the macroeconomy and housing market.<sup>5</sup>

## Shifting Responsibility from Federal to State and Local Governments

While most of the federal government's early housing policy efforts focused on promoting homeownership and public housing construction, federal policy has shifted towards rental subsidies in recent years. In the late 1970s and early 1980s, Congress ended funding for new project-based Section 8, the primary channel for federal affordable housing construction. This significantly diminished the federal role in direct public housing provision. Additionally, it created the LIHTC and HOME Investment Partnership programs, which allowed state and local governments to leverage federal dollars to facilitate affordable housing development.<sup>6</sup> This has increased the salience of local decisions in housing policy outcomes.

## Current Federal Programs and Resources

The contemporary federal funding system provides housing support to low-income families through three primary channels: rental assistance, resource distribution to state and local governments, and homeownership and financing support. For FY2020, HUD received a net appropriation of \$49.1 billion. This represents a nearly \$4.9 billion increase from FY2019 when appropriators allocated slightly more than \$44.2 billion.<sup>7</sup> Past appropriations provided approximately 87 percent of FY2020 funding levels in FY2018, 79 percent in FY2017, and 78 percent in FY2016.<sup>89</sup> FY2020 funding levels include \$23.9 billion for tenant-based rental assistance and \$12.6 billion for project-based rental assistance, which jointly constitute the Section 8 Housing Choice Voucher program, the largest source of federal housing assistance. Additionally, the FY20 appropriations bill provided \$4.55 billion for the Public Housing Operating Fund, \$3.4 billion for Community Development Block Grants, and \$2.78 billion for homeless assistance grants. As noted in the aforementioned CARES Act section, some federal housing programs received additional funding, which the following reference table does not reflect:

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<sup>5</sup> A. Klein, J. Schardin, M. Baily, *The impact of the Dodd-Frank Act on financial stability and economic growth*, Brookings Institute, January 2017

<sup>6</sup> M. McCarthy, L. Perl, K. Jones, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, March 2019

<sup>7</sup> Maggie McCarthy, *HUD FY2019 Appropriations: In Brief*, Congressional Research Service, April 2019

<sup>8</sup> Maggie McCarthy, *HUD FY2018 Appropriations: In Brief*, Congressional Research Service, June 2018

<sup>9</sup> M. McCarthy, D. Peterman *HUD FY2018 Appropriations: In Brief*, Congressional Research Service, June 2018

## Housing and Urban Development FY2020 Appropriations

Program Name	Fiscal Year 2020 Appropriation Funding Level
Tenant-Based Section 8 Vouchers	\$23.9 billion
Project-Based Section 8 Rental Assistance	\$12.6 billion
Public Housing Operating Fund	\$4.55 billion
Public Housing Capital Fund	\$2.87 billion
Community Development Block Grants	\$3.4 billion
Homeless Assistance Grants	\$2.78 billion
HOME Investment Partnerships	\$1.35 billion
Section 811 Housing for People with Disabilities	\$202 million
Section 202 Housing for the Elderly	\$793 million
Additional Programs and Administrative Expenditures	\$3.95 billion
<b>Gross Appropriations Subtotal</b>	<b>\$56.4 billion</b>
Federal Housing Administration Receipts	\$6.1 billion
Government National Mortgage Association Receipts	\$1.2 billion
<b>Total Offset Revenues</b>	<b>\$7.3 billion</b>
<b>Net Appropriations</b>	<b>\$49.1 billion</b>

Source: Congressional Research Service

## Rental Housing Assistance Programs

### Section 8 Housing Choice Voucher and Project Based Section 8 Rental Assistance Programs

HUD's budget allows it to provide crucial rental support to more than two million low- and middle-income Americans.<sup>10</sup> Section 8 Housing Choice Vouchers (vouchers) are the federal government's most significant housing assistance program, which helps low-income families, the elderly, and the disabled secure housing in the private market. Typically, families and individuals obtain housing through the private market and utilize vouchers to cover the difference between the rent and the families' contribution to ensure that their expenditure does not exceed 30 percent of household income. Public housing authorities (PHAs), a semi-governmental organization, administer Section 8 Housing Vouchers. PHAs must give at least 75 percent of their vouchers to extremely low-income families, which earn less than thirty percent of area median income (AMI).<sup>11</sup>

In addition to vouchers, HUD provides project-based Section 8 rental assistance. The program allows HUD to enter contracts with private property operators, who commit to leasing to low-income families, and to supplement the rent paid by such tenants. There have been no new contracts since the 1980s, but some of the existing contracts are renewed. In FY2020, Congress appropriated \$12.6 billion for the

<sup>10</sup> Harvard Joint Center for Housing Studies, *The State of the Nation's Housing*, Harvard Joint Center for Housing Studies, June 2018

<sup>11</sup> M. McCarthy, L. Perl, K. Jones, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, March 2019

program, making it one of HUD's largest programs. Additionally, it alleviates housing cost burdens for more than 1 million low-income households.<sup>12</sup>

While Section 8 programs provide critical support to more than 3 million households, nearly 5 million needy families remain on growing waiting lists. Despite HUD's recommendation that waiting periods do not exceed two years, waiting lists in localities with intense need often fail to meet this threshold. Analysis from the Public and Affordable Housing Research Corporation (PAHRC) found that nearly half of all waiting lists are closed to new applicants, and often remain closed for a year or more.<sup>13</sup> Although determining total housing assistance need remains challenging, a substantial portion of low-income and middle-to-low-income households struggle with housing affordability, with millions of eligible households failing to receive or even seek crucial support.<sup>14</sup>

## Public Housing

Local public housing authorities (PHAs) operate low-rent public housing developments, which receive federal subsidies and face regulations mandating quality and price. As with the Section 8 programs, PHA units are primarily available for low-income families, with strict compositional requirements, and an expected rental contribution of thirty percent of household income. HUD provides formula funding to PHAs through operating funds, which support day-to-day facility management, and capital funds which support physical restoration and improvement efforts. In FY2020, Congress provided these programs with \$4.55 billion and \$2.87 billion. Additionally, PHAs can apply for competitive Choice Neighborhoods revitalization grants, which replaced the HOPE VI program in 2010, to replace critically failing public housing units with mixed-income housing developments. Choice Neighborhoods revitalization grants received \$100 million from FY2020 appropriations.<sup>15</sup> *While the PHA operating and capital funds receive significant funding each year, there is public housing maintenance backlog that contributes to the loss of 10,000 public housing units annually. The public housing maintenance backlog exceeds \$70 billion,* according to analysis from the National Low Income Housing Coalition (NLIHC).<sup>16</sup> Chronically underfunded public housing highlights the broader shift in federal housing policy from direct housing provision and operation towards rental market subsidization.

## Programs for Specific Populations

HUD provides capital grants to nonprofit developers to create rental properties for low-income elderly people through the Section 202 Supportive Housing for the Elderly program. It is the only housing program that exclusively targets older Americans. Additionally, HUD distributes capital grants to nonprofit builders to facilitate accessible housing construction through the Section 811 Supportive Housing for Persons with Disabilities program, the only federal housing initiative that specifically benefits Americans with disabilities. Developers utilizing Section 811 capital grants must provide

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<sup>12</sup> R. Collinson, I. Ellen, J. Ludwig, *Low-Income Housing Policy*, University of Chicago Law School, April 2015

<sup>13</sup> Public and Affordable Housing Research Corporation (PAHRC), *Housing Agency Waiting Lists and the Demand for Housing Assistance*, PAHRC, 2016

<sup>14</sup> Alana Semuels, *How Housing Policy Is Failing America's Poor*, The Atlantic, June 2015

<sup>15</sup> M. McCarthy, D. Peterman *Transportation, Housing and Urban Development, and Related Agencies (THUD) Appropriations for FY2020: In Brief*, Congressional Research Service, October 2019

<sup>16</sup> National Low Income Housing Coalition (NLIHC), *Public Housing: Where Do We Stand*, NLIHC, October 2019

supportive services, which allow residents to live as “active community members.”<sup>17</sup> In FY20, Congress appropriated \$793 million and \$229 million, respectively, for these programs.

The United States Department of Agriculture’s (USDA) Rural Housing Service (RHS) supports renters in rural communities through the Section 515 program. The agency provides more than \$1 billion in low-interest loans to developers to construct rental housing annually. Additionally, HUD collaborates with the Department of Veterans Affairs (VA) to provide housing vouchers to chronically homeless veterans through the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program. While HUD distributes housing vouchers, the VA conducts outreach and case management services for eligible applicants.<sup>18</sup> In FY2019, Congress appropriated \$40 million for the program.

## Funding Opportunities for State and Local Government

### Low Income Housing Tax Credit

The federal government provides housing resources which state and local governments can leverage in a variety of ways. Tax credits, flexible block grants, and conditioned grant programs support local efforts to alleviate excessive housing costs. The most significant of these programs is the LIHTC, which produced an estimated \$10 billion tax expenditure in FY2020, according to the Joint Committee on Taxation (JCT).<sup>19</sup> The program offers significant tax incentives to develop affordable housing through state housing finance agencies (HFAs). The federal government issues credits to HFAs, which distribute the credits to developers through a competitive process. Developers can sell credits to private investors to generate funding. HFA distributions depend on populations, with larger areas receiving more generous tax credits.

After HFAs distribute LIHTCs, developers sell credits to investors to finance housing developments. The credits lower investor’s yearly tax liability over a ten-year window, reducing the need for developers to utilize private financing. Property owners can lower rents because they are less reliant on private funding. To qualify for the program, twenty percent of a development’s units must provide housing for families which earn less than half of the area median income (AMI), at least forty percent must house families which earn less than sixty percent of AMI, and no units can be occupied by tenants earning greater than eight percent of AMI. HUD supplies detailed information for state and local LIHTC allocating agencies to determine project eligibility, including population and citizen engagement.<sup>20</sup>

### Mortgage Revenue Bonds

Another critical housing affordability lever for state and local governments is the authority to issue private activity bonds (PABs). The most common of these is the mortgage revenue bond (MRB). HFAs issue MRBs, which are exempt from federal taxation, and bond sale proceeds finance affordable

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<sup>17</sup> Congressional Research Service, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, Congressional Research Service, March 2016

<sup>18</sup> HUD, *HUD Veterans Affairs Supportive Housing Program*, HUD, 2020

<sup>19</sup> Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022*, Joint Committee on Taxation, March 2019

<sup>20</sup> HUD, *Community Development Block Grant Program*, HUD, December 2019

mortgages for low-income families. Eligibility requirements include not owning a home for the previous three years, intention to use the mortgage for a principal residence, and home price and household income limits. The program supports first-time homebuyers who might otherwise be unserved in the private mortgage market and provides revenue to HFAs through mortgage payments. This benefits local governments by supporting homeownership and housing stability. According to the JCT, MRBs created a \$1.3 billion tax expenditure in FY2018.<sup>21</sup>

## Community Development Block Grants

The Community Development Block Grant (CDBG) program provides communities access to flexible grant funding to address housing affordability, poverty, and infrastructure development. CDBG is one of HUD's longest sustained initiatives, allocating resources to local governments since 1974.<sup>22</sup> Entitlement communities, defined as large urban areas, receive seventy percent of CDBG funds, while smaller, non-entitlement communities receive the remaining thirty percent. While local leaders can use CDBG funds flexibly, at least seventy percent of the allocation must support low- and middle-income people.<sup>23</sup> Congress has used the program's flexibility to provide communities with funding during catastrophes like natural disasters. In FY20, Congress appropriated \$3.4 billion for the program, \$100 over the FY19 enacted level. HUD presents information for communities to explore their ability to leverage CDBG funding.<sup>24</sup> The CARES Act provided the CDBG program with an additional \$5 billion in supplemental funding.

## HOME Block Grants

Through the HOME Investment Partnership (HOME) program, HUD provides block grants on a formula basis to state and local governments to promote affordable housing activities. States retain forty percent of HOME funds, while sixty percent go to localities. The funding formula considers factors such as the condition of existing housing stock and population income characteristics. HOME fund recipients are called "participating jurisdictions" and must match HOME expenditures with a twenty-five percent permanent contribution to affordable housing policy. Additionally, participating jurisdictions must produce a detailed account of how HOME funds will support affordable housing needs.<sup>25</sup>

HOME funds can support housing rehabilitation, home buyer support, affordable housing development, and tenant-based rental assistance. HOME funded development projects must benefit households with income at or below eighty percent of AMI and tenant-based support must serve households with a

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<sup>21</sup> Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022*, Joint Committee on Taxation, March 2019

<sup>22</sup> Congressional Research Service, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, February 2014

<sup>23</sup> Congressional Research Service, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, February 2014

<sup>24</sup> HUD Exchange, *Explore CDBG*, HUD, 2020

<sup>25</sup> HUD, *HOME Investment Partnership Program*, HUD, December 2019

maximum household income of sixty percent of AMI. In FY20, Congress appropriated \$1.35 billion for the program.<sup>26</sup>

### Housing Trust Fund

The Housing and Economic Recovery Act of 2008 (HERA) created the Housing Trust Fund (HTF), which is one of the more recently established federal housing programs. The HTF provides funds to state governments to support affordable housing activities, particularly rental housing for extremely impoverished citizens. HUD designates HTF dollars for rental assistance to low-income households. All funds must benefit low-income households, and seventy-five percent of funds are required to support extremely low-income families. While the HTF shares characteristics with the HOME program, it focuses more closely on rental assistance and the most impoverished community members. Unlike other initiatives, HUD administers the HTF, while Freddie Mae and Fannie Mac fund the program.<sup>27</sup> Because of concerns surrounding the government-sponsored enterprise's (GSE) stability, the HTF first received funding in 2016. HUD provided states with \$174 million in 2016, \$219 million in 2017, \$267 million in 2018, and \$245 million in 2019 through the HTF.<sup>28</sup> *Despite significant annual contributions to states, the HTF fails to adequately support local efforts to alleviate housing costs for very low-income households.*

### Homeless Assistance Grants

As housing prices skyrocket, homelessness rates have increased in fast-growing urban areas. HUD provides funding for state and local governments to facilitate housing and administer services for the homeless through the Emergency Solutions Grants (ESG) program, Continuum of Care (CoC) program, and Rural Housing Stability (RHS) program.<sup>29</sup> These programs are collectively known as Homeless Assistance Grants. In FY2020, Congress appropriated \$2.78 billion for the initiative.

HUD provides ESG funds to local and state governments by formula, which recipients can utilize in two ways. The first channel is to develop emergency shelter and related services, while the second is to support homelessness prevention and rehousing activities. The CoC program is funded through competitive grants to states, local governments, nonprofit agencies, and other relevant stakeholders. CoC resources support efforts to address a variety of homelessness services. Additionally, the RHS program, which has never been implemented, functions similarly to the CoC program but exclusively for

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<sup>26</sup> Katie Jones, *An Overview of the HOME Investment Partnerships Program*, Congressional Research Service, September 2014

<sup>27</sup> Congressional Research Service, *The Housing Trust Fund: Background and Issues*, Congressional Research Service, May 2016

<sup>28</sup> National Council of State Housing Agencies (NCSHA), *National Housing Trust Fund (HTF) Allocations by State, 2016-2019*, NCSHA, 2019

<sup>29</sup> Libby Perl, *The HUD Homeless Assistance Grants: Programs Authorized by the HEARTH Act*, Congressional Research Service, August 2017

rural communities.<sup>30</sup> Despite HUD releasing proposed regulations for the RHS program in 2013, the agency has yet to provide funding through the initiative.<sup>31</sup>

## Housing Opportunities for Persons with AIDS

The Housing Opportunities for Persons with AIDS (HOPWA) program provides local governments with a federal funding source to address housing issues facing community members with HIV and AIDS. HUD allocates HOPWA funding through competitive grants and formula distributions, with ninety percent of formula funds going to metropolitan areas with sufficiently large HIV infected populations.<sup>32</sup> HOPWA resources are relatively flexible and can be used broadly for housing activities. In FY2020, Congress appropriated \$410 million for the program. Additionally, HUD provides more detailed program eligibility requirements, including metro area population and HIV infection rate requirements.<sup>33</sup>

## Programs for Native American Tribes

To create a streamlined federal funding stream for Indian tribes that supports tribal sovereignty, the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) created a unified block grant program. Tribal governments or tribally designated housing entities (TDHEs) can leverage Native American Housing Block Grant (NAHBG) program funds to support affordable housing activities.<sup>34</sup> Resources are allocated based on a need determined formula, and tribes must provide an Indian Housing Plan (IHP) to access funds. In FY2020, lawmakers allocated \$825 million for the program.

## Homeownership and Housing Assistance

### Federal Housing Administration and other Federal Loan Support Programs

Homeownership assistance involves direct support to reduce housing costs, tax incentives, and support for families that the private mortgage insurance market fails to serve.<sup>35</sup> The FHA, one of the federal government's oldest housing programs, provides credit to borrowers who cannot access housing market credit through typical channels. The FHA administers two distinct programs for single-family and multi-family units, as well as nursing homes. These programs are the Mutual Mortgage Insurance Fund account (MMI Fund) and the General Insurance/Special Risk Insurance Fund account (GI/SRI Fund). The MMI Fund is the FHA's most significant initiative, often supporting nearly 1 million home purchases annually. FHA-insured mortgages have represented approximately twenty percent of home mortgages

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<sup>30</sup> M. McCarthy, L. Perl, K. Jones, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, March 2019

<sup>31</sup> Libby Perl, *The HUD Homeless Assistance Grants: Programs Authorized by the HEARTH Act*, Congressional Research Service, August 2017

<sup>32</sup> Libby Perl, *Housing for Persons Living with HIV/AIDS*, Congressional Research Service, September 2016

<sup>33</sup> HUD Exchange, *HOPWA Eligibility Requirements*, HUD, 2020

<sup>34</sup> Congressional Research Service, *The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA): Background and Funding*, Congressional Research Service, November 2015

<sup>35</sup> Katie Jones, *FHA-Insured Home Loans: An Overview*, Congressional Research Service, January 2019

over the past decade. In FY2020, Congress appropriated \$400 billion in loan guarantees for the MMI Fund and \$30 billion for the GI/SRI Fund.

The VA provides a very similar service for veterans through a home loan guarantee program.<sup>36</sup> However, unlike the FHA programs, the VA program guarantees a specific percentage of a loan, depending on the loan amount. The initiative supports several hundred thousand home purchases annually.<sup>37</sup> Additionally, the USDA administers various programs to support rural homeownership. The most notable of these initiatives include the Section 502 Rural Housing Loan program and the Section 504 program. The Section 504 initiative provides loans to very-low-income and elderly people, while the Section 502 program supports very low- to moderate-income people in rural communities.<sup>38</sup>

### Capital Magnet Fund

Another significant federal program that supports low-income homeownership is the Capital Management Fund (CMF). The Department of Treasury's Community Development Financial Institutions (CDFI) Fund manages the CMF program, which provides competitive grants to nonprofits and CDFIs to facilitate affordable housing initiatives. The program attempts to leverage other funding sources, such as loan loss reserves, to amplify capital allocations. The CMF is funded through Fannie Mae and Freddie Mac, like the HTF, and received its first contributions in 2016.<sup>39</sup>

### Mortgage Interest Deduction

The federal government has long sought to promote homeownership through direct financing support and preferential tax treatment. One of the most significant federal tax expenditures is the Mortgage Interest Deduction, which permits homeowners to deduct mortgage interest payments from their taxable income. The program costs more than \$30 billion annually, according to JCT.<sup>40</sup> Due to its structure, the program disproportionately benefits higher-income households.<sup>41</sup>

### Housing Policy Trends

Before the economic disruptions associated with the Coronavirus pandemic, a relatively healthy and steadily improving labor market failed to mitigate rising housing costs that negatively affect families across the country. HUD defines housing affordability as housing costs using less than thirty percent of a household's income. Families who spend between thirty and fifty percent of their income on housing

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<sup>36</sup> Libby Perl, *VA Housing: Guaranteed Loans, Direct Loans, and Specially Adapted Housing Grants*, Congressional Research Service, October 2018

<sup>37</sup> M. McCarthy, L. Perl, K. Jones, *Overview of Federal Housing Assistance Programs and Policy*, Congressional Research Service, March 2019

<sup>38</sup> Tadlock Cowan, *An Overview of USDA Rural Development Programs*, Congressional Research Service, February 2016

<sup>39</sup> Sean Lowry, *Community Development Financial Institutions (CDFI) Fund: Programs and Policy Issues*, Congressional Research Service, January 2018

<sup>40</sup> Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022*, Joint Committee on Taxation, March 2019

<sup>41</sup> Congressional Research Service, *The Mortgage Interest and Property Tax Deductions: Brief Overview with Revenue Estimates*, Congressional Research Service, July 2011

are considered cost-burdened, while households spending more than half of their earning on housing are deemed severely cost-burdened. In addition to the excessive housing cost burdens facing low-income Americans, local zoning and housing policy decisions have contributed to soaring housing prices in high-growth metropolitan areas. In these areas, including cities such as Seattle, Portland, and San Francisco, middle-class residents struggle to secure housing. The secondary impacts of housing shortages have led to significant increases in homelessness, which have exacerbated community challenges.

### Insufficient Market Income

The 2016 American Community Survey showed that more than 35 million households are either severely or normally cost-burdened.<sup>42</sup> These figures illustrate the reality that many low-income Americans lack the labor market income to secure affordable housing. While programs like Section 8 Housing Vouchers and additional supports alleviate the housing cost burden for millions of families, the program is not an entitlement program and has not grown commensurate with need. The often years-long waiting list in some cities further highlights the high-cost burdens facing lower- and middle-income families. As with broader economic trends, communities of color are often disproportionately burdened by housing costs.

### Inadequate Housing Supply

In the US, state and local government units principally guide land-use decisions. Land-use decisions can intensify affordability issues, especially in areas with significant economic development. These trends are particularly visible in the Pacific Northwest and large East Coast cities, where housing shortages have created severe difficulties, even for otherwise economically stable households. Local leaders have responded to affordability issues with zoning measures that permit increased density, including allowing the construction of mother-in-law suites within existing dwellings and the development of auxiliary housing units on existing properties that already contain one housing unit. While the measures have provided some benefit, the steadily increasing cost of housing remains detrimental to many jurisdictions.

Land-use decisions remain critical to local leaders' ability to respond to housing needs in their communities. For example, local lawmakers and developers in some communities are beginning to find common ground through inclusionary zoning policies, in which local governments reduce regulations for developers if they include a designated number of affordable housing units in their developments.<sup>43</sup> This policy is attractive to lawmakers because it incurs little to no upfront fiscal commitments, while developers eagerly await opportunities to build housing with reduced entitlement requirements or fees. Unfortunately, the policy often inadequately alleviates either the housing shortage or the affordability of housing for low-income citizens. Nevertheless, local land-use decisions are a significant component of the housing policy framework.

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<sup>42</sup> Harvard Joint Center for Housing Studies, *The State of the Nation's Housing*, Harvard Joint Center for Housing Studies, June 2018

<sup>43</sup> Benjamin Schneider, *CityLab University: Inclusionary Zoning*, City Lab, July 2018

## Current Federal Legislation

Rep. Denny Heck (D-WA) introduced [H.R.4351: The Yes In My Backyard \(YIMBY\) Act](#) in September 2019. The bill forces local governments to report on their adoption of land use policies that promote housing supply and affordability to obtain CDBG funding. Covered land-use policies include allowing high-density single-family and multifamily zoning, creating transit-oriented development zones, abolishing specific parking requirements, and providing density bonuses. By conditioning critical federal housing dollars, local governments face additional pressure to permit housing development. On March 2, 2020, the YIMBY Act passed the House. Sen. Todd Young (R-IN) introduced accompanying legislation in the Senate, but it has stalled in committee.

Housing and transit issues are often connected, especially in denser areas. A bill by Rep. Scott Peters (D-CA), [H.R.4037: The Build More Housing Near Transit Act](#), introduced in September 2019, seeks to encourage housing development near existing transit infrastructure hubs. The legislation requires capital investment grant applicants to conduct a housing feasibility assessment along proposed transit routes before project approval. After its introduction in the House, the bill has stalled in the Transportation and Infrastructure's Subcommittee on Railroads, Pipelines, and Hazardous Materials, primarily because the transit community was concerned with the responsibility of addressing housing issues outside of its control.

With the increasing salience of housing affordability issues, many elected officials have proposed legislation to address the crisis. In December 2019, Senators Todd Young (R-IN) and Chris Van Hollen (D-MD) introduced [S.3083: The Family Stability and Opportunity Vouchers Act of 2019](#). The legislation would add 500,000 housing mobility vouchers to expand and improve the Housing Voucher System by incentivizing low-income families to move into higher-income areas. After its introduction, the bill was referred to the Committee on Banking, Housing, and Urban Affairs. No further action has taken place.

[H.R. 2162: The Housing Financial Literacy Act of 2019](#), introduced in April 2019 by Representative Joyce Beatty (D-OH), lowers FHA single-family mortgage insurance premium payments for first-time homebuyers who complete a financial literacy housing counseling program. The bill passed the House in July 2019 and has since stalled in the Senate Banking, Housing, and Urban Affairs Committee.

As rates of homelessness increase, Rep. Ilhan Omar (D-MN) introduced [H.R.5244: The Homes for All Act of 2019](#). The bill establishes new units of public housing and private market affordable housing and provides grants to combat gentrification and neighborhood destabilization. It has stalled in the House Financial Services Committee.

Rep. Heck also introduced [H.R.5599: The Fulfilling the Promise of the Housing Trust Fund Act](#) in January 2020. The legislation amends the Housing and Community Development Act of 1992 to require the deposit of enterprise guarantee fees in the Housing Trust Fund. As noted earlier in this report, the HTF did not receive funding until 2016, eight years after its creation. The bill has stalled in the House Financial Services Committee.

## Conclusion

As housing affordability decreases, demands for local, state, and federal government officials to enact legislation will continue intensifying. Even before the Coronavirus public health emergency, housing affordability concerns escalated in many areas, despite robust economic growth and healthy labor markets, illustrating the complexity of the issue. Despite these obstacles, a significant federal housing policy infrastructure offers vital funding opportunities that state and local leaders can utilize to support affordable housing activities. Maintaining a robust presence in federal deliberations will be critical for ensuring that your community can best address housing policy interests. Additionally, as the Coronavirus pandemic continues to undermine the American economy, further stimulus measures remain probable. Such packages are likely to provide additional funding for federal housing programs.