Federal Tools for Production and Preservation of Affordable Rental Housing

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Introduction

This paper describes federal programs and subsidies for affordable multifamily rental housing production, development, and preservation.[1] The federal government supports a range of supply and production tools to expand, maintain, and improve the stock of affordable housing,[2] including direct fiscal outlays, tax credits and exemptions that result in tax expenditures,[3] and the assumption of default risk by the federal government. At the federal level, the tools described in this paper are administered by the U.S. Department of Housing and Urban Development (HUD), U.S. Department of Agriculture (USDA), and U.S. Department of the Treasury (Treasury). Even though federal resources fund these housing supply subsidies, the primary administrators of many of the policies discussed in this paper are often non-federal entities, such as state housing finance agencies (HFAs), public housing agencies (PHAs), and state and local grantees.

This paper describes the objectives, methods, scope, and interaction of current and past federal policies and programs designed to promote the development and preservation of affordable housing. The paper does not present new research or program evaluation findings of past or current programs, but rather assembles in one place a history of the development and evolution of a wide variety of programs, subsidies, and other tools related to multifamily rental housing, and provides a catalog of the programs and tools currently in use.

The paper focuses on programs related to rental housing supply, namely those housing production, rehabilitation, and preservation activities to expand or maintain the stock of affordable multifamily rental housing. In discussing rental assistance, the paper focuses on project-based assistance programs, rather than tenant-based subsidies, though such subsidies are discussed in the context of project-based vouchers and tool to increase affordability. The paper does not cover programs designed to increase homeownership, nor does it explore the relative cost effectiveness or equity implications of the rental programs profiled.

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[1] This report is a working paper produced by staff of HUD's Office of Policy Development and Research. The contents of the report are the views of the authors and do not necessarily reflect the views or policies of HUD or the U.S. government. The primary authors are: Richard Duckworth, Michael K. Hollar, Alastair McFarlane and David Hardiman. The authors note the Fiscal Year 2021 Appropriations Omnibus Joint Explanatory Statement for Division L that instructed the HUD Office of Policy Development and Research (PD&R) to carry out, "a review of the existing federal tools to preserve and develop affordable housing." See "Note on Transportation, Housing and Urban Development, and Related Agencies Appropriations Act, 2021." 116th Congress, 2021 https://docs.house.gov/billsthisweek/20201221/BILLS-116RCP68-JES-DIVISION-L.pdf.

[2] This paper defines *affordable housing* as federally subsidized rental housing with income-based occupancy restrictions and/or rent limits. The term *housing affordability* is often used to signify decent housing that can be purchased or rented by lower-income households without unsustainable financial stress. Most measures of housing affordability express the burden of housing payments as a function of household income and typical housing payments for a specific market. See Hulchanski (1995), Lerman and Reeder (1987), Stone (2006), and Thalmann (2003) for a summary of different approaches to measuring housing affordability.

[3] This paper uses the term, "tax expenditures" to describe subsidies delivered through the tax code, including for income tax deductions or exemptions, that result in reduced tax revenue for the federal government. Tax expenditures delivered in this manner are generally considered to be "indirect subsidies" as opposed to "direct subsidies" which could take the form of federal grants or direct payments.

Key Findings

Federal programs and subsidies for affordable rental housing production have used numerous different subsidy models over time. The three main subsidy types and approaches covered in Section I of this paper – A Brief History of Federal Rental Housing Supply Programs – are:

- **Public Housing Bonds for Construction and Rehab**. From enactment in 1937 through the 1970s, public housing construction was financed through federally backed bonds and loans, with interest and principal repaid through federal outlays. Loans could be issued with up to 40-year loan terms, and bonds were issued for up to 60 years. The extended loan and bond terms reduced annual federal outlays in the short term, although total costs were greater over the entire period. The federal government paid state and local housing authorities through annual contributions contracts which were used to pay interest on bonds and loans. Starting in the 1960s, the federal government enacted ongoing rental assistance for annual operations and maintenance needs and to achieve the deep subsidy level needed to provide affordability for the lowest income families. In later periods, new development subsidies took the form of direct grants for capital needs.
- **Subsidized Mortgage Programs**. After World War II, increasing emphasis was placed on public-private coordination for financing affordable rental housing through Federal Housing Administration (FHA) mortgage insurance with a variety of indirect and shallow subsidy mechanisms including reduced interest rate mortgages (e.g., either 3-percent or even 1-percent mortgages) and direct loan products. Like the extended subsidy periods of public housing bonds, the insured mortgage and direct loan programs included 40- to 50-year mortgage terms. The USDA Rural Housing Service (RHS, formerly the Farmers Home Administration) used a similar set of programs for rural areas.
- **Rental Assistance: Project-Based Section 8**. With the enactment of the Housing and Community Development Act of 1974, HUD's primary affordable rental housing production program became the Project-Based Section 8 New Construction and Substantial Rehabilitation (NC/SR) program. Section 8 NC/SR provided ongoing annual subsidy to private owners of multifamily properties for affordable rents for the lowest income families. It was coupled with additional programs for financing initial construction and development, which could include market rate FHA multifamily mortgage insurance, USDA RHS Section 515 or HUD Section 202 loans or bond financing issued through state housing finance agencies (HFAs). The RHS Section 521 program was also amended in 1974 to add a major rental assistance component, in parallel with HUD's new Section 8 Project-Based Section 8 program.

The three main approaches currently in use (discussed in Section II) are as follows:

- **Production Programs and Subsidies.** There are a variety of federal programs aimed at incentivizing financing for construction and rehabilitation of affordable rental housing. These include Low-Income Housing Tax Credits (LIHTC), Treasury private activity bonds, and FHA and RHS Multifamily Insurance programs. These programs generally provide moderate levels of affordability, although they can be combined with additional deeper subsidy programs to assist the lowest income families.
- **Rental Assistance.** These programs include HUD public housing and Project-Based Section 8, which in earlier eras were geared towards new production, but under current budget levels are now aimed primarily at preservation of the existing housing stock. Within several programs there remain options for new construction, including Choice Neighborhoods grants for redevelopment and replacement of severely distressed public and assisted housing, and capital advance grants in the Section 202 Supportive Housing for the Elderly and Section 811 Supportive Housing for Persons with Disabilities programs. The Rental Assistance Demonstration (RAD) leverages

financing for rehabilitation and in some cases redevelopment and replacement of public housing and other legacy rental assistance programs. Project-Based Section 8 Vouchers (PBVs) within the Section 8 Housing Choice Voucher program can also be paired with new production programs to incentivize production of new affordable units as well.

- **Block Grants.** This category of current housing supply programs includes the HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs, as well as HUD's Housing Trust Fund program, Homeless Assistance Grants and Indian Housing Block Grants, the latter authorized under the Native American Housing and Self-Determination Act (NAHASDA). Also of note is the Department of the Treasury's Capital Magnet Fund. Under the block grant approach, funding is provided to state, local, or tribal government housing agencies with an array of available eligible activities to meet local needs. Critically for housing supply, these programs allow state or local entities to provide direct grants or other financial assistance for housing developers to undertake new construction, rehabilitation, or other housing production and preservation activities.

In practice the current set of programs and approaches are typically used in combination, for example combining LIHTC equity and FHA loan proceeds (see Section II, Part 4, for examples).

Exhibit 1 shows the number of housing units directly associated with each of the tools discussed in this paper. For additional context, the total annual number of units in completed buildings constructed for rental housing ranged between 342,000 and 348,000 units, according to Census estimates.[4] The existing stock of all occupied rental housing units in the United States in 2023 stood at 46.4 million rental units, according to American Housing Survey estimates.[5] Over 19 million of the households living in rental units had incomes below 50 percent of the area median income.[6] For the context of all U.S. housing market production of all housing types, including single family, multifamily and manufactured housing, see the table provided in Appendix 1.

Because multiple federal tools can support a single unit of affordable housing, summing the counts of units in each row of Exhibit 1 (both units in development projects and units under affordability restrictions) would yield an inaccurate total quantity of distinct units supported by the tools. For example, nearly all of the 60,000 units in projects financed with tax-exempt PABs annually also received LIHTC and, therefore, are also captured in the 125,000 units in projects that received LIHTC. According to the National Council of State Housing Agencies 2022 Factbook, of units that received LIHTCs in 2022, only 20 percent did *not* receive another non-LIHTC source of federal subsidy.[7] According to the National Preservation Database, about 30 percent of the current affordable stock received subsidies from more than one federal housing program.

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[4] Between 2020 and 2022. See https://www.census.gov/construction/nrc/index.html.

[5]In comparison, there were roughly 86.9 million owner-occupied housing units, for a total of 133.3 million occupied housing units. See the American Housing Survey (AHS) Table Creator, at https://www.census.gov/programs-surveys/ahs.html and select "tenure" as a variable.

For total U.S. housing market production, see the table in Appendix 1.

[6] HUD PD&R, "Worst Case Housing Needs: 2023 Report to Congress," https://www.huduser.gov/portal//portal/sites/default/files/pdf/Worst-Case-Housing-Needs-2023.pdf.

[7] HFAs reported that 5 percent of units were in projects that received funding or loan guarantees from USDA programs; 25 percent involved project-based Section 8 contracts; 4 percent received CDBG-funded investments from CDBG grantees; 17 percent received HOME-funded investments from HOME grantees; 11 percent received HTF-funded investments from HTF grantees; and 5 percent used FHA-insured loans.

Exhibit 1. Number of Projects and Units Developed or Preserved, by Program

Federal Tool	Estimated Annual Production: Construction and Rehabilitation (Projects and Units)		Approx. Total Units Under Affordability Restrictions as of December 2022
	Approx. Annual Activity, Projects	Approx. Annual Activity, Units	
Low-Income Housing Tax Credit	1,600[a]	130,000[a]	3 million[b]
Tax Exemption for Rental Housing Private Activity Bonds	400[a]	60,000[a]	N/A
FHA Multifamily Mortgage Insurance	200[c, 8]	22,000 [c, 9]	N/A
USDA Section 538 Loan Guarantee	100[d, 10]	5,000[d]	67,000[e]
USDA Direct Loans and Grants	300[g]	Unknown	405,000[d]
USDA Section 521 Rental Assistance	N/A		270,000[g]
Public Housing	N/A		900,000[f]
Section 8 PBRA	N/A		1,300,000[f]
Section 8 Housing Choice Vouchers	N/A		2,400,000
Project-Based Vouchers			330,000[h]
HUD-VASH Section 8 Vouchers, incl. PBVs			112,.000
Section 202 and Section 811 Supportive Housing	20[i]	900[i]	160,000[f]

[8] Only includes loans for new construction or rehabilitation projects on affordable housing properties. These loans made up about 10 percent of total FHA Multifamily Mortgage business, which also includes refinance and acquisitions loans, and market-rate and healthcare facility properties. Based on an annual average from FY 2019–22.
[9] Total units in the associated projects. Includes market-rate units in "affordable" properties.
[10] Only includes loans for new construction or rehabilitation projects. Nearly all Section 538 loans are for new construction or rehabilitation projects, and all are for affordable housing properties. Based on an annual average from FY 2019–22.

Federal Tool	Estimated Annual Production: Construction and Rehabilitation (Projects and Units)		Approx. Total Units Under Affordability Restrictions as of December 2022
	Approx. Annual Activity, Projects	Approx. Annual Activity, Units	
HOME (rental housing construction and rehabilitation only)	800[j]	7,800[j]	250,000[j]
Housing Trust Fund (HTF) (rental housing construction and rehabilitation)	200[j]	1,500[j]	3,500[j]

FHA = Federal Housing Administration. HTF = Housing Trust Fund. N/A = not applicable. PBRA = Project-Based Rental Assistance. USDA = U.S. Department of Agriculture.
Notes: Federal tools overlap. Units may appear in multiple rows and columns.
Sources: a: National Council of State Housing Agencies (2023); b: HUD LIHTC database, Properties Placed in Service through 2021; c: HUD Multifamily Production data, available at https://www.hud.gov/program_offices/housing/mfh/mfdata/mfproduction; d: Rural Development Datasets, available at https://www.sc.egov.usda.gov/data/MFH.html; e: National Housing Preservation Database; f: Picture of Subsidized Households, 2022, available at https://www.huduser.gov/portal/datasets/assthsg.html; g: Housing Assistance Council Tabulations of USDA Obligation Data, available at https://ruralhome.org/information-center/usda-information-and-data/; h: HUD Project-Based Voucher Dashboard; i: HUD Press Releases for Notice of Funding Opportunity Awards made 2021–23; j: HUD administrative data (reported by grantees)

Organization The paper is organized into two main sections. Section I provides a history of the subsidy models and mechanisms used over time for affordable rental housing production and preservation. Section II describes the current landscape and program infrastructure, focusing on (Part 1) production subsidies and incentives for construction or rehabilitation of affordable rental housing; (Part 2) rental assistance programs that provide annual funding for regular and ongoing operations, maintenance, or capital repair needs of federally-subsidized affordable rental housing; and (Part 3) block grant programs that distribute funding to state, local, tribal, and territorial governments to be used for a variety of new construction or housing rehabilitation activities. In addition, Part 4 provides examples of recent housing development projects to illustrate the current prevalent mixed finance model and Part 5 summarizes the affordability requirements for all the supply programs currently in use.

Section I. Brief History of Federal Rental Housing Supply Programs

While a complete history of the development and evolution of federal rental programs is beyond the scope of this paper, this section focuses on several key programs and subsidy models that had a major impact on rental housing supply, production, and preservation. The intent of this section is to present the basic subsidy mechanisms and approaches that were used in selected key program interventions. Understanding the evolution of federal housing policy provides insight into the current landscape of federal tools that develop and preserve affordable housing.

The New Deal Era

Key programs enacted in the New Deal era originated from the need to respond to the Great Depression, including to stabilize the nation's banking system and mortgage market, as well as provide for jobs and general economic stimulus and to address social issues including the need for affordable housing and neighborhood and community development.

FHA: Multifamily Mortgage Insurance[11]

The National Housing Act of 1934 created the Federal Housing Administration (FHA). Although FHA is most widely known for facilitating homeownership and helping to standardize the 30-year mortgage the National Housing Act as passed in 1934 also authorized FHA to provide mortgage insurance for multifamily apartment projects though Section 207 of the Act:

> LOW-COST HOUSING INSURANCE
>
> SEC. 207. The Administrator may also insure first mortgages, other than mortgages defined in section 201 (a) of this title, covering property held by Federal or State instrumentalities, private limited dividend corporations, or municipal corporate instrumentalities of one or more States, formed for the purpose of <u>providing housing for persons of low income</u> which are regulated or restricted by law or by the Administrator as to rents, charges, capital structure, rate of return, or methods of operation."[12] (<u>emphasis</u> added)

Thus, from its inception, FHA supported not only the construction of single-family home mortgages, but also affordable rental housing. Indeed, between 1934 and 1958, FHA-insured multifamily construction constituted nearly 40 percent of the multifamily market (Glock, 2016). The volume of FHA-insured multifamily mortgages also continued to expand through the 1960s, in large part through additional programs, discussed below (Young, Browne, and Moroz, 2021).

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[11] The programs covered in this section are a small number of the total FHA mortgage programs. For additional programs in the 1934-1972 period, see HUD, "Housing in the Seventies," (1974) at: https://www.huduser.gov/portal/publications/affhsg/hsg_seventies_1974.html. Note, a preliminary version of this report was delivered to Congress in 1973. Citations and page numbers used in this paper refer to the 1974 version, available online on HUDUSER.Gov.

See also the supplemental attachment posted on HUDUSER.Gov together with this paper, with an updated and accessible version of the Table of FHA Mortgage Programs, 1934-1972 (adapted from the Housing in the Seventies report).

[12] Section 207 of the National Housing Act of 1934 (Public Law 73-479). Available online at: https://govtrackus.s3.amazonaws.com/legislink/pdf/stat/48/STATUTE-48-Pg1246.pdf.

Public Housing Construction with Loan and Bond Financing

The New Deal era also saw enactment of federal subsidies to build affordable rental housing for low-income families through public housing. The United States Housing Act of 1937 (USHA of 1937) enacted a system under which the federal government would support state and local public housing agencies (PHAs) chartered pursuant to state law.[13]

Like the finance programs discussed above, Congress created the low-rent public housing program to both alleviate unemployment through stimulus to the construction industry and improve the housing supply. The programs and institutions created during this early era were not designed solely to address issues affecting the housing market but also as part of the broader New Deal employment program intended to revive the economy. The federal government was interested in reviving the struggling construction industries and reducing unemployment by stimulating housing construction. For example, as stated in Section 1 of the USHA of 1937:

> "Section 1.
>
> "It is hereby declared to be the policy of the United States to promote the general welfare of the Nation by employing its funds and credit, as provided in this Act, to assist the several States and their political subdivisions to alleviate present and recurring unemployment and to remedy the unsafe and insanitary housing conditions and the acute shortage of decent, safe, and sanitary dwellings for families of low income, in rural or urban communities, that are injurious to the health, safety, and morals of the citizens of the Nation."

The Act provided for general affordability targeting for lower-income renters:

> "Section 2
>
> "…The term "low-rent housing" means decent, safe, and sanitary dwellings within the financial reach of families of low income, and developed and administered to promote serviceability, efficiency, economy, and stability, and embraces all necessary appurtenances thereto.
>
> The dwellings in low-rent housing as defined in this Act shall be available solely for families whose net income at the time of admission does not exceed five times the rental (including the value or cost to them of heat, light, water, and cooking fuel) of the dwellings to be furnished such families, except that in the case of families with three or more minor dependents, such ratio shall not exceed six to one."[14]

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[13] An earlier attempt at public housing through direct federal construction and operation, was enacted in the National Industrial Recovery Act of 1933 and ran into implementation and legal challenges and was ultimately struck down by the Supreme Court. A number of public housing projects constructed under the NIRA authority would be transferred to state and local PHAs under the newer 1937 authority. See, Section 202 of the National Industrial Recovery Act (1933), authorizing the newly formed Federal Emergency Administration of Public Works, "To carry out public works for the… (d) construction, reconstruction, alteration, or repair under public regulation or control of low-cost housing and slum-clearance projects;" https://govtrackus.s3.amazonaws.com/legislink/pdf/stat/48/STATUTE-48-Pg195.pdf.

[14] See, text of the original USHA of 1937 (Public Law 75-412, 50 Stat. 888), at https://govtrackus.s3.amazonaws.com/legislink/pdf/stat/50/STATUTE-50-Pg888.pdf.

See, Section 202 of NIRA authorizing the newly formed Federal Emergency Administration of Public Works, "To carry out public works for the…(d) construction, reconstruction, alteration, or repair under public regulation or control of low-cost housing and slum-clearance projects;".

Initially, the federal government provided PHAs with the capital needed to build public housing, with funding for operating costs coming entirely from tenant rents. The USHA of 1937 provided for a variety of flexible tools for HUD's precursor agency (initially the U.S. Housing Authority), including authority for loans, bonds, and in some cases direct grants. The 1937 Act further provided for the federal agency to make fixed payments to PHAs through an Annual Contributions Contract (ACC). PHAs could take out loans or issue local bonds, though public auction sales, using the ACC as collateral and for purposes of making interest payments on the resulting loans or bonds. Loan and bond terms could be long-term, with terms up to 60-years.

Public Housing: Turnkey Development (1960s)

In the 1960s, HUD added new public housing development method – the "Turnkey Method." Under this approach, PHAs would contract with private developers, including for-profit companies. The latter would be responsible for construction and then turnover the project to the PHA for ongoing ownership and operations. This achieved relative success in production, with over 200,000 units, a sizeable portion of the total inventory, added just between 1967 and 1972.[15]

Section 23

In 1965, a new rental housing program was enacted as Section 23 of the USHA of 1937. Using Section 23 funding from HUD, state and local PHAs could lease rental units on the private market and make them available for low-income tenants. This authority can be seen as a precursor to either the Project-Based Section 8 program (under which HUD issued contracts directly from the federal government with the private owner) or, perhaps even more closely, the later Project-Based Voucher (PBV) program. Section 23 provided subsidies for more than 38,000 units.[16]

Post-War: Expansion of FHA Multifamily Programs and Subsidized Mortgage Financing[17]

In the immediate post-war period, FHA mortgage insurance played a major role in a housing construction boom fueled by both the release of pent-up demand from veterans returning from service overseas and the redirection of resources from war production to the civilian economy. FHA's support for multifamily rental housing included not only the original FHA Section 207 program, but also the Section 608 program initially enacted in 1942 for war workers and amended in 1946 as part of the Veterans Emergency Housing program. Thus amended, the Section 608 program expanded rapidly from 46,000 units in insured projects in 1947 to over 128,000 units in 1949 alone. The program facilitated the development of over 465,000 units total between 1942 and 1952, with the vast majority in the peak years of 1947-1951.[18]

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[15] On public housing "turnkey" development, see HUD, "Housing in the Seventies," (1973), page 17.

[16] CRS, "Overview of Federal Housing Assistance Programs and Policy," (March 2019). https://crsreports.congress.gov/product/pdf/RL/RL34591.

[17] Although any government mortgage insurance (or loan guarantee) provides an incentive and indirect subsidy, the term "subsidized mortgage" is often used in discussing specific HUD programs, to refer to mortgage terms which include some additional feature, such as a lower interest rate (e.g. 3% or 1%) or a government direct loan. Subsidized mortgages are generally distinguished from market rate mortgages which may also have mortgage insurance without such additional terms, conditions or program affordability requirements.

[18] On legislative history of Section 608, see Congressional Research Service, "A Chronology of Housing Legislation and Selective Executive Acts, 1892-2003," (2004) at https://financialservices.house.gov/media/pdf/108-d.pdf. For

By the 1950s, policymakers sought to provide both deeper subsidies, though still using FHA insured mortgages as the subsidy vehicle, to provide greater affordability for lower-income renters and to achieve specific public policy purposes and serve specific populations. While public housing also continued on a parallel track, the increasing reliance on FHA mortgage insurance programs was also intended to act more in concert with the private sector.[19]

Through the subsidized mortgage approach, the federal government enabled private sector builders to obtain financing with below market interest rates. With lower interest rates, developers could charge lower rents and still have adequate revenue for the debt service on the loans or mortgages. Generally, these programs were often designed to provide housing to moderate-income renters but whose incomes were often too high to qualify for public housing.

A key program in this subsidized mortgage approach was the Section 202 Housing for the Elderly direct loan program, enacted in 1959. Under the direct loan approach, the federal government itself acted as the lender, rather than insuring mortgages made by a private bank, and could offer interest rates below market rates. Consequently, Section 202 direct loans typically provided a 3 percent interest rate and loan terms up to 50 years resulting in lower monthly and annual debt service payments as a further incentive for housing development and more affordable rents.[20] Despite this intent, the Section 202 direct loan authority had limited production, with about 45,000 units in 335 projects produced between 1959 and 1968. The

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total production of Section 608, see FHA, "21st Annual Report of the Federal Housing Administration, for the Year Ending December 31, 1954," (1954), at https://www.huduser.gov/portal/sites/default/files/pdf/Twentieth-Annual-Report-of-the-Federal-Housing-Administration.pdf. See Table 2 on page 11, and Table 4 of Page 13;

See also, GAO, "Section 236 Rental Housing: An Evaluation with Lessons for the Future," PAD-78-13 (January 1978), available at: https://www.gao.gov/products/pad-78-13.

Note on fair housing and equity considerations. Federal housing programs in this period often had issues with discrimination and segregated siting issues. For an interesting analysis of potential discrimination in the location and placement of Section 608 insured properties, see, e.g., Cebul, Brent and Glass, Michael R., "Building Inequality: Mapping the spatial and racial inequalities of FHA Section 608 rental housing, ca. 1942-1950," Online Story Maps (July 26, 2024), at: https://storymaps.arcgis.com/stories/6691906184564ca8821b57d4d6e18292.

[19] On subsidized mortgages in this era generally, including more detail on underwriting terms and conditions, see: HUD, "Housing in the Seventies," (See Chapter 1, pages 10-18, including illustration on page 16), available at: https://www.huduser.gov/portal/publications/affhsg/hsg_seventies_1974.html. See also the supplemental table, "FHA Mortgage Programs, 1934-1972" posted on HUDUSER together with this paper.

[20] On Section 202's direct loan approach, see CRS, "Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents," (March 2016), https://crsreports.congress.gov/product/pdf/RL/RL33508/46; page 3, and citing Barry G. Jacobs, Kenneth R. Harney, Charles L. Edson, and Bruce S. Lane, Guide to Federal Housing Programs (Washington, DC: Bureau of National Affairs, 1982). See also, GAO, "Housing for the Elderly: HUD Policy Decisions Delay Section 202 Construction Starts," GAO- RCED-91-4 (January 1991). https://www.gao.gov/assets/rced-91-4.pdf; and HUD, "Section 202 Direct Loan Program for Housing for the Elderly or Handicapped Handbook (HUD Handbook 4571.1)," https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsgh/45711 including Chapter 1, Sec. 1-11, "How the Section 202 Program Works." Note: an earlier FHA direct loan program had been introduced in the Housing Act of 1950, the Section 401 Housing for Educational Institutions program, which subsidized construction of dormitories for colleges and universities, later expanded in 1954 to include additional student facilities. See text of the Housing Act of 1950 (Public Law 81-475) at https://govtrackus.s3.amazonaws.com/legislink/pdf/stat/64/STATUTE-64-Pg48.pdf. See also, GAO, "The College Housing Loan Program: More Effective Management Needed," CED-80-75, (March 1980). https://www.gao.gov/products/ced-80-75.

program would see increased activity later in the 1970s, when the program would be paired with Project-Based Section 8, discussed more below.[21]

In 1961, Congress passed an additional FHA subsidized mortgage product – the Section 221(d)(3) Below Market Interest Rate (BMIR) program, which was also structured as a direct loan product. The program also aimed to provide deeper affordability by reducing the mortgage interest rate to as low as 3 percent in order to reach lower-income households. Section 221(d)(3) modified the earlier approach and adopted what is perhaps better described as a quasi-direct loan, under which Fannie Mae (still operating to purchase or securitize government insured mortgages prior to GNMA taking over that role with its establishment in 1968) would purchase the loans under a "Special Assistance" authority. As described in a contemporary law review article,

> "FNMA Special Assistance
>
> "The Federal National Mortgage Association possesses what are known as "special assistance" functions in connection with some of the FHA multifamily housing programs-principally section 213, section 220, section 221 (d) (3) below market interest rate, rent supplements, and section 221(d)(3) and (d)(4) where the housing is for displaced families.
>
> "The homebuilding industry operates with two types of mortgage money-interim, or short-term, construction loans and long-term, permanent financing. One type of lender desires to put his money out on short term, one to three year construction loans. He cannot keep it there for forty years, so he does not make the construction loan unless he has a "permanent take out"-that is, when the initial construction loan which he makes is fully disbursed and insured by FHA, another lender has a firm commitment to purchase that loan at a price. Also, in the case of section 221 (d) (3) below market interest loans, the current six per cent interest rate during construction reduces to three per cent at final loan closing and no private source would be available to provide the permanent take out for such cases.
>
> "Under its special assistance functions, FNMA can provide the permanent take out for these loans by making a commitment to the construction lender: to purchase the loan from it when construction is complete and the construction loan has been fully disbursed and insured. For such services FNMA charges a commitment fee of one per cent of the face amount of the mortgage and, if the loan is ultimately delivered to FNMA, a purchase and marketing fee of one-half per cent of the face amount of the mortgage is also charged. The FNMA contract does not require the interim lender to deliver the loan to FNMA; thus, if during the construction period the mortgage market changes, the interim lender may be able to arrange for a take out from conventional

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[21] CRS, "Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents," (March 2016), at: https://crsreports.congress.gov/product/pdf/RL/RL33508/46; citing HUD, "Housing for the Elderly and Handicapped: The Experience of the Section 202 Program from 1959 to 1977," (January 1979). For statutory text of the original Section 202 program, see: The Housing Act of 1959 (Public Law 86-372), at https://www.govinfo.gov/content/pkg/STATUTE-73/pdf/STATUTE-73-Pg654.pdf. After enactment of Section 8 Project-Based rental assistance, the Section 202 direct loan program saw increased production, with over 128,000 additional units added between 1974 and 1988. See CRS 2016, footnote 32 citing, AARP, "The 1999 National Survey of Section 202 Elderly Housing, American Association of Retired Persons," (January 2001), p. 9, http://assets.aarp.org/rgcenter/il/2001_02_housing.pdf,. Many of these projects are still in operation.

sources. Also, if the loan covered by such commitment is not delivered to FNMA, three-fourths of the one per cent FNMA commitment fee is refunded."[22]

The BMIR program in total produced approximately 190,000 total units from 1961 until 1972. In terms of affordability levels, even with the subsidized 3 percent interest rate, the program's subsidy was not sufficient to reach the lowest income households, as with the other subsidized mortgage programs. Reaching a deeper affordability level would require subsidies that were both more significant and structured as an ongoing income stream for operations and maintenance.[23]

Rural Housing - Farmers Home Administration Programs for Multifamily Rental Housing

As FHA programs expanded to include new subsidized mortgage programs, there was a parallel effort underway focused on rural housing needs through the USDA Farmers Home Administration (FmHA or "Farmers Home"). Established in 1946, FmHA administered a number of key programs for both single family homeownership and multifamily rental housing in rural areas. The well-known Section 515 program was enacted in 1962, one year after FHA's Section 221(d)(3) BMIR program – using a similar subsidy method with 3 percent interest rates and 50-year mortgage terms. Initially reserved for elderly persons, the program was amended in 1966 to expand eligibility to any low- and moderate-income households. The allowable interest rates were further reduced to 1 percent with the enactment of Section 521 in the same 1968 housing act that also created the FHA Section 236 program with a similar 1-percent interest rate subsidy method.[24] After 1974, the Section 515 program would provide upfront financing for construction or rehabilitation with ongoing annual operations subsidies from either the Project-Based Section 8 or the RHS Section 521 program (amended to add rental assistance).

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[22] Fitzpatrick, B.T., "FHA and FNMA Assistance for Multifamily Housing," 32 Law and Contemporary Problems 439-464 (Summer 1967). Available at: https://scholarship.law.duke.edu/lcp/vol32/iss3/7. On FNMA's role in Section 221(d)(3) secondary market purchases, see also, CRS, "Housing the Poor: Federal Programs for Low-Income Families, CRS RL-30486 (March 2000), page 19.

[23] On Section 221(d)(3) production, see HUD Statistical Yearbook 1979, Table 4 (page 67) and Table 6 (page 74 for new construction over time, and page 77 for rehab and refi's over time). Note that 221(d)(3) also had a market interest rate option, which produced far higher overall production, with over 600,000 additional units. The "market rate" program also had a somewhat reduced interest rate, see Ed Olsen 2001, footnote 3. A significant portion of the Section 221 Market Rate projects also had Rent Supplement subsidies attached to them, adding approximately 80,000 units. See, CRS, "Preservation of HUD-Assisted Housing," (January 2012), https://www.everycrsreport.com/files/20120106_R41182_98b85679ea576bfd75a77942527a9c6a12e562e1.pdf citing the U.S. House hearing, "Preventing the Disappearance of Low-Income Housing," Hearing before the Subcommittee on Housing and Community Development of the Committee on Banking, Finance, and Urban Affairs, House of Representatives, 100th Cong., 2nd Sess., June 8, 1988, p. 61.

[24] The Farmers Home Administration was later re-named as the Rural Housing Service (RHS). For a general overview of FmHA/RHS housing programs, see CRS, "USDA Rural Housing Programs: An Overview," (March 2022), https://crsreports.congress.gov/product/pdf/R/R47044; and CRS, "USDA Rural Housing Programs: An Overview," (May 2006) at https://www.everycrsreport.com/reports/RL33421.html. Section 515's 50-year mortgage term was later reduced to 30-year terms, in the FY 1998 Agriculture Appropriations Act. https://www.govinfo.gov/content/pkg/PLAW-105publ86/pdf/PLAW-105publ86.pdf

Section 236 and the Kaiser Commission[25]

In 1967, President Lyndon Baines Johnson (LBJ) empaneled three Commissions to address urban unrest and socio-economic issues, including affordable housing. The most famous of these, the Kerner Commission, included the well-known warning, "Our nation is moving toward two societies, one black, one white—separate and unequal."[26] Less well known, the President's Committee on Urban Housing, also called the Kaiser Commission, was directly focused on housing issues, and was heavily focused on supply, production and mass manufacturing.

The Kaiser Commission directly influenced passage of the Housing and Urban Development Act of 1968, which created the next major federal housing production effort – the Section 236 subsidized mortgage program. Section 236, provided an even deeper subsidy than the BMIR, reducing the interest rate to 1 percent (from BMIR's 3 percent). It achieved this through an ongoing direct subsidy payment to the project owner, in an amount to reduce the debt service to achieve the 1 percent rate. Developers also benefited from accelerated depreciation through the tax code. Section 236 also allowed for participation by for-profit developers (with a limited return/dividend), as opposed to BMIRs, which were restricted to non-profits or cooperatives.

Where the previous programs provided some measure of moderate affordability, but failed to yield the anticipated volume of production, the Section 236 achieve a very rapid expansion in a short timeframe. Indeed, within two years, Section 236 produced over 100,000 annually in both 1970 and 1971 with another 97,000 units in 1972. Within a decade, Section 236 had produced over 540,000 multifamily rental units, with three-quarters of this production in only the first 5 years.[27] Indeed, the Section 236 achieved far higher production within a shorter timeframe than any other FHA or HUD program to that point, with only the mostly market rate Section 608 Veterans multifamily program coming close. The

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[25] On Section 236 and the Kaiser Commission, see: von Hoffman, Alexander, "Calling upon the Genius of Private Enterprise: The Housing and Urban Development Act of 1968 and the Liberal Turn to Public-Private Partnerships," Studies in American Political Development, 27(02) (2013). Accessed at: https://www.researchgate.net/publication/259436583_Calling_upon_the_Genius_of_Private_Enterprise_The_Housing_and_Urban_Development_Act_of_1968_and_the_Liberal_Turn_to_Public-Private_Partnerships. The title of the article is drawn from LBJ's 1967 State of the Union address calling for a public-private partnership for housing and community development: "We should call upon the genius of private industry and the most advanced technology to help rebuild our great cities." The article also notes that LBJ was also apparently the first President to specifically use the term "public-private partnership" (in remarks lauding a Truman Administration hospital construction program).

[26] The third housing-related commission appointed by LBJ was the National Commission on Urban Problems, also known as the Douglas Commission, named for Sen. Paul Douglas (IL), and which included a recommendation for improved federal data on housing conditions, which would lead to creation of the American Housing Survey.

[27] For FHA insured 236 projects, see: HUD Statistical Yearbook 1979 (Tables 4 and 6). However, note that about 116,000 additional units received Section 236 IRPs but received debt financing through State HFAs rather than FHA insurance (and thus do not appear in the FHA insured totals). See: Congressional Budget Office, "The Potential Loss of Assisted Housing Units as Certain Mortgage-Interest Subsidy Programs Mature," CBO Staff Working Paper (March 1987). https://www.cbo.gov/publication/16403. See also: Edgar O. Olsen, "Housing Programs for Low-income Households," National Bureau of Economic Research, Working Paper 8208, 2001, available at https://www.nber.org/system/files/working_papers/w8208/w8208.pdf; and Congressional Budget Office, Federal Housing Assistance: Alternative Approaches," (May 1982), available at: https://www.cbo.gov/sites/default/files/97th-congress-1981-1982/reports/doc18b-entire_1.pdf.

Note that while the Nixon administration moratorium halted new approvals and production, a pipeline of previous commitments and approvals continued, accounting for the remaining units that were added to the inventory after the suspension of new activities.

program was then halted, along with all other subsidized mortgage programs, in 1973 by President Nixon's unilateral "moratorium" decision, discussed below.

Subsidized Mortgage Programs – Reaching the Limits of Affordability

While the large-scale subsidized mortgage finance programs of this era were at times criticized for management or fiscal problems, the programs were also showing the limits of affordability that could be achieved solely through indirect subsidies and finance for the construction and development of projects without ongoing regular rental assistance. At times, Congress sought to increase affordability targets through the imposition of deeper income targeting. However, without Congress providing the subsidies necessary to serve the lowest income families, projects were then unable to sustain maintenance and operations based solely on the resulting limited rental income.

In response, in the 1960s, Congress began to enact several new rental assistance programs, which were initially small in scale compared to the total inventory of rental units being produced. Ongoing rental assistance would provide direct funding to subsidize annual maintenance, operation and small-scale repair needs allowing projects to serve much lower income tenants at an affordable level. Indeed, the lack of affordability for the lowest income tenant in the production programs had also led Congress to enact an income-based rent limit, championed by Senator Edward Brooke (R-MA), which became known as the Brooke Amendment. To ensure the viability of rental projects to provide deeper levels of affordability, a series of rental assistance programs were enacted, including the Section 23 program (1965), Rent Supplement Program (1965) which accompanied some Section 221(d)(3) BMIR projects, and the Rental Assistance Program, or RAP, which was attached to some of the Section 236 programs (1968).

In the public housing program, Congress also amended the annual contributions contract statutory provision to allow for some operating assistance beginning in 1969. Congress had previously passed public housing operating subsidies, limited to specific populations, including the elderly (added in 1961) and persons displaced as a result of urban renewal actions (added in 1965).

While these new rental assistance programs showed promise in meeting their objectives, they were still relatively small in comparison to both the existing stock of rental housing already produced by both public housing and the subsidized mortgage programs, as well as to the overall need for affordable rental housing. These early attempts at rental assistance would be greatly expanded in 1974.

A Note on Subsidized Mortgages – Implications of Prepayment for Renewal Costs

A critical feature of the subsidized mortgage programs involved the nexus between the federal affordability requirements to the term of the mortgage (often up to 40 or even 50 years) with the addition of a contractual option allowing an owner to prepay the mortgage after only 20 years. This was built in as an additional incentive for the initial construction and production itself. However, combined with the expiration of long-term rental assistance contracts (often issued for up to 20 years), a potential wave of mortgage prepayments and contract opt-outs would create a major need for appropriations and congressional action to preserve the existing stock and prevent displacement of low-income families.[28]

[28] See HUD PD&R, "Multifamily Properties: Opting In, Opting Out and Remaining Affordable," and "Opting In, Opting Out a Decade Later," at https://www.huduser.gov/portal/pdredge/pdr_edge_research_081015.html. For an example of mortgage program requirements, on prepayment of Sec 202 Direct Loans, see HUD Notice H-2013-17, "Updated Requirements for Prepayment and Refinance of Section 202 Direct Loans," https://www.hud.gov/sites/documents/13-17HSGN.PDF.

Treasury: Private Activity Bonds (PABs)

In 1968, Congress established laws allowing qualified private activities to be financed with tax-exempt state and local bonds, known as private activity bonds (PABs). The use of tax-exempt bonds for private use, then called industrial development bonds, dates back to the 1930s. However, in response to the increasing use of these bonds to finance unusually large corporate offices and manufacturing plants, Congress established rules on the uses of PABs in the Revenue and Expenditure Control Act of 1968. This act authorized 12 activities that could be funded with PABs, including qualified residential rental projects. Instead of a directly subsidized lending program like those described above, the bond financing tax exemption reduces financing costs for affordable housing projects as a feature of the federal tax code. It allows state and local governments to issue bonds with lower interest rates than would be feasible if bondholders had to pay federal taxes on the interest income. The lower interest rates enable housing providers that receive the state or local government-sponsored financing to operate rental housing with lower rent prices.

The Housing and Community Development Act of 1974

In early 1973, President Nixon declared a moratorium on new commitments in all federal housing subsidy programs, including public housing, subsidized financing, and supplemental rental assistance. This effectively halted any new obligations for affordable housing, even for existing housing programs and authorized activities. This executive branch action would be met by Congress with a series of landmark laws, both to revamp federal budget requirements[29] and to establish major new housing and economic development programs, including for the production and preservation of affordable rental housing.

Expansion of Rental Assistance: 1960s to Landmark HCDA of 1974

The landmark Housing and Community Development Act 1974 (HCDA of 1974) greatly expanded HUD's rental assistance programs, for both public housing operating subsidies and for two new programs codified in Section 8 of the exiting United States Housing Act of 1937 (USHA of 1937). The new law established two basic types of Section 8 programs: Project-Based Section 8 (PB S8 or S8 PBRA) which provided rental assistance contracts between HUD and private owners of affordable rental housing, and Tenant-Based Section 8, initially named Section 8 Certificates or Section 8 "Existing Housing," with assistance administered by PHAs and provided to tenants who could use their certificate to lease privately owned rental units. In all Section 8 programs, housing providers receive monthly subsidy payments that make up the difference between an individualized income-based rent payment from each tenant and a contractual total rent.

Within Project-Based Section 8, there were also two distinct types of assistance. The PB S8 New Construction and Substantial Rehabilitation program (NC/SC) was used to support new construction and major rehabilitation projects for new production and supply expansion.

A follow-up expansion to Project-Based Section 8 – Loan Management Set-Aside (LMSA) – could also be attached to existing housing, particularly the housing projects previously built with FHA subsidized mortgage finance programs (particularly Section 221(d)(3) BMIRs and Section 236 projects) to provide

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[29] It should be noted that the Congressional response to Nixon's unilateral moratorium on housing spending and production, including suspension of FHA subsidized mortgage programs, also included passage of the landmark Congressional Budget and Impoundment Control Act of 1974, which modernized budget scoring of congressional appropriations, and required implementation of enacted spending for the purposes the funds were appropriated for. Later changes to federal budget scoring would also have effects on the operation, funding and output of federal housing production programs, including the later Budget Enforcement Act of 1990.

for deeper levels of affordability in those projects to the lowest income tenants. These Project-Based Section 8 contracts for existing projects were sometimes referred to as “older assisted” indicating the age of the structures which pre-existed the enactment of the later rental assistance. A more modest Project-Based Section 8 option was enacted in 1978 - Section 8 Moderate Rehabilitation, or simply Mod Rehab.

The Project-Based Section 8 program (NC/SR and LMSA combined) would eventually expand to over 1.5 million units at its peak in the early 1990s, with Section 8 Mod Rehab providing over 105,000 additional units.

Exhibit 2 shows the approximate number of units produced each year under Section 8 New Construction and Substantial Rehabilitation (NC/SR) contracts and earlier production programs, including public housing and subsidized finance programs. Total construction activity supported by these programs dropped temporarily in the years after the 1973 moratorium and began a sustained decline in the 1980s. Exhibit 2 does not include Low-Income Housing Tax Credit (LIHTC) or the HOME Program, enacted later (1986 and 1990 respectively).[30] Note the two major expansion periods, first with Section 236 subsidized mortgages, from approximately 1969 to 1974 (together with increased public housing construction in this general period), and next with Section 8 NC/SR from 1974-1983. Many Section 236 projects had other federal rental assistance, either through the early Rent Supplement program or later Project-Based Section 8 (LMSA) attached to them. Section 236 projects continued to provide affordable housing through the 1990s, when most mortgages either expired or were prepaid by owners.

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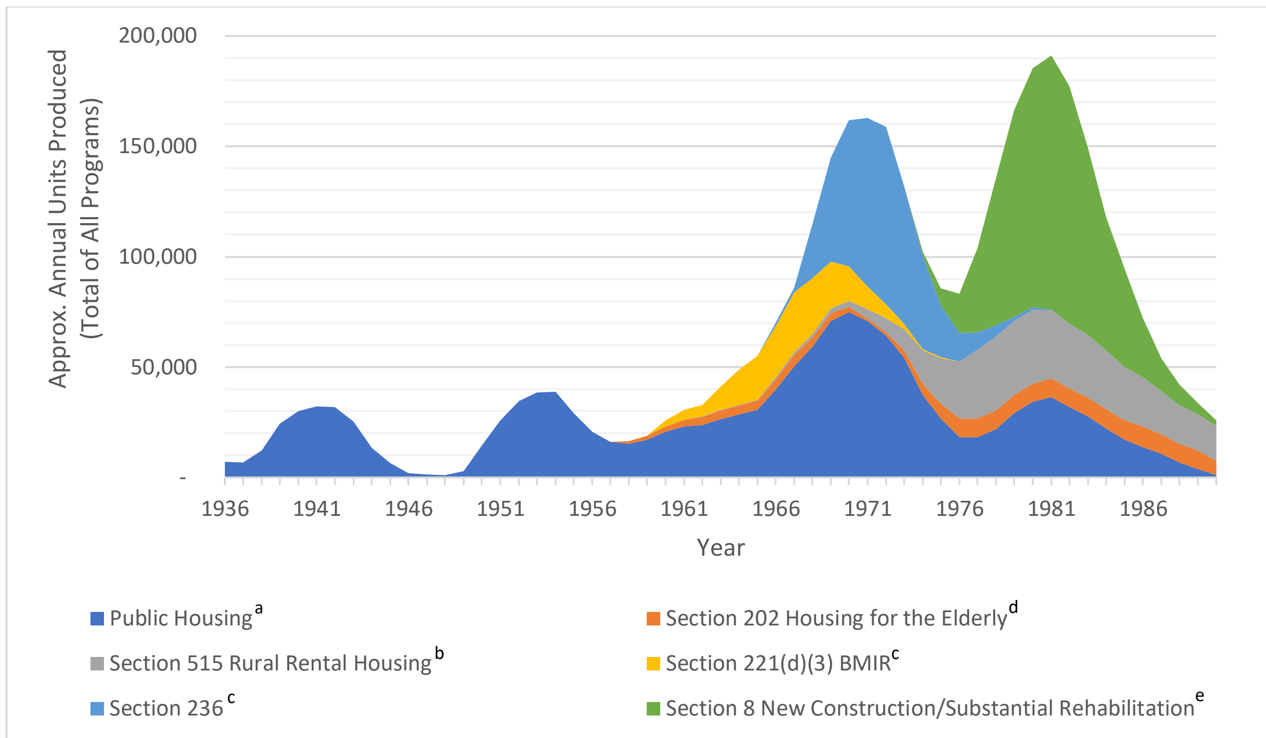
[30] Exhibit 2 does not include LIHTC as a separate program or subsidy type in order to avoid double counting of units. LIHTC would be represented in the overall figures to a large extent as it is often used in conjunction with other production or for rehabilitation and modernization needs of other assisted housing program units.

Exhibit 2. Selected Federal Housing Production Programs, 1950-1990 (Approximate Annual Units Produced)



BMIR = below market interest rates.

Sources: a: U.S. Housing and Home Finance Agency (1958: 9), HUD (1979: 204), Schwartz (2014: 164); b: Housing Assistance Council (2022: 109); c: HUD (1979: 64); d: U.S. Senate Committee on Banking and Currency (1967: 106); Congressional Research Service (2016: 3); Heumann et al. (2001: 100); e: Olsen (2003: 391)

Community Development Block Grants (CDBG)

The Housing and Community Development Act of 1974 also created the Community Development Block Grant (CDBG) program, which distributes federal funds to state and local governments for community development activities. The creation of CDBG was significant because it replaced several categorical grant programs that required local authorities to apply for federal funding with a single “block grant” with a list of possible eligible activities for state and grantees to adopt based on local needs. Although new housing construction by itself is not part of the list of eligible activities, so as not to displace the then current development programs (public housing, Section 8 NC/SR and the FHA programs), some housing related activities remain an important part of the program. These activities include rehabilitation of rental housing benefiting low- and moderate-income families, as well as some development-related activities, including site acquisition of land (real property) and housing-related infrastructure including water and sewer connections and sidewalks.[31]

[31] See discussion in the “Block Grant Programs” section below and CDBG grantee expenditure reports at https://www.hudexchange.info/programs/cdbg/cdbg-expenditure-reports/.

USDA Section 521 Rental Assistance

Congress also created a USDA-specific program analogous to Section 8 PBRA in 1974 called Section 521 Rural Rental Assistance. USDA administers Section 521 and offers project-based rental assistance to properties with active Section 515 loans. It is used to improve financial viability and relieve tenant rent burdens in Section 515-financed projects.[32]

1986 Tax Reform and the Low-Income Housing Tax Credit

In the 1980s, federal policy for producing new affordable housing units shifted away from rental assistance contracts and toward attracting investment through incentives in the tax code. The Economic Recovery and Tax Act of 1981 decreased the depreciation period of real estate from 40 years to 15 years and thus created a boom in construction. Total rental housing construction increased from an average of 378,000 new multifamily units per year from 1977 through 1981 to an average of 533,000 new multifamily units per year from 1984 through 1986. This expansion was reversed after passage of the Tax Reform Act of 1986 which removed the most favorable tax advantages of building and owning rental housing, for example by extending the depreciation period from 15 to 27.5 years.[33]

As an alternative means of promoting affordable rental housing construction, Congress established the Low-Income Housing Tax Credit (LIHTC) in the same legislation. LIHTC became the primary construction subsidy vehicle for affordable rental housing, with over 3.5 million LIHTC units placed in service between 1987 and 2022. Tax credits are allocated to state and local Housing Finance Agencies (HFAs) based on state population, and HFAs have discretion in setting priorities for how the credits will be used.

The Tax Reform Act of 1986 also capped the total volume of PABs that states could issue annually, including those used for multifamily housing and other purposes. Each state's annual total PAB volume limit is based on its population, and the per capita amount is indexed to inflation.

The National Affordable Housing Act of 1990

After the termination of the Project-Based Section 8 NC/SR program in 1983, HUD was left without a large scale affordable rental production program.[34] Although there were a few attempts at smaller scale programs, such as the Housing Development Action Grant (HODAG) program, it would not be until the landmark National Affordable Housing Act of 1990 (NAHA) that this gap was filled.

The HOME Program

In 1987, the Senate Banking Committee empaneled a private housing commission, with representatives from the banking industry and affordable housing advocates. The National Housing Task Force, informally known as the "Maxwell Rouse Commission" made a series of recommendations including the

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[32] See Congressional Research Service (CRS), "USDA Rural Housing Programs: An Overview," (March, 2022). Available online at: https://crsreports.congress.gov/product/pdf/R/R47044.

[33] For a discussion of the repeal of accelerated depreciation, see e.g. Poterba, James, Poterba, James, "Tax Reform and the Housing Market in the Late 1980s," available from the Federal Reserve Bank of Boston at: https://www.bostonfed.org/news-and-events/events/economic-research-conference-series/real-estate-and-the-credit-crunch.aspx.

[34] After termination of any new Section 8 NC/SR projects in 1983, the Section 8 Mod Rehab continued to issue new contracts, however at modest levels, until it also was terminated in the HUD Reform Act of 1989. While new contracts ceased to be issued, the Project-Based Section 8 programs still paid rental assistance on the existing contracts that were already issued.

creation of a new block grant program, comparable to CDBG in scale and approach, but dedicated to affordable housing production. These recommendations included the following – including a proposed "Housing Opportunity Program," to be renamed by Congress at enactment as the HOME Investment Partnerships Program, or HOME Program in short.

> "RECOMMENDATION: The federal government should create and invest in a "Housing Opportunity Program" (HOP) designed to foster and stimulate state and local initiatives to develop, renovate and conserve low income housing. (Page 18)
>
> > "The proposed Housing Opportunity Program (HOP) will provide federal funds at the state and local leve1s to support and stimulate the delivery of low-income housing. With a first year appropriation of $3 billion,
>
> "RECOMMENDATION: The federal government should make a long-range commitment to increasing the supply of long-term, low-income housing through HOP. (Page 20)
>
> > "HOP funds should be provided with maximum flexibility and minimum regulation. (Page 21)
> >
> > "To tailor responses to local housing needs, state and local governments will be able to use HOP funds for a wide range of housing activities, subject to certain income targeting and performance requirements."

The resulting HOME Program was the first new major HUD block grant since the creation of CDBG in 1974. Like CDBG, HOME is awarded to states and large local governments, through an annual formula allocation and grantees have a range of activities they can choose to fund using the grant. Unlike CDBG, HOME is exclusively focused on affordable housing activities. The eligible activities include both new construction and housing rehab, and for both multifamily and single-family housing. For rental housing, HOME can support acquisition, rehabilitation or new construction of both single family and multifamily structures. For new homebuyers, HOME can support both new construction or rehabilitation of units, or direct homebuyer assistance (e.g. for downpayment assistance). HOME can also support existing low-income homeowners with assistance for repair and rehabilitation needs. As provided in the statute:

> "Funds made available under this part may be used by participating jurisdictions to provide incentives to develop and support affordable rental housing and homeownership affordability through the acquisition, new construction, reconstruction, or moderate or substantial rehabilitation of affordable housing, including real property acquisition, site improvement, conversion, demolition, and other expenses…"[35]

Modernized Section 202 and Section 811

Under NAHA, the previous Section 202 direct loan program was replaced with a modernized new program – the Section 202 Supportive Housing for the Elderly program. This revamped program had two key subsidy components. First, it provided a capital advance grant intended to substantially pay for the development and construction costs of a project upfront. In return, properties were generally required to

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[35] NAHA, Section 212, available online at: https://www.hud.gov/sites/documents/19576_PARTA.PDF;
Note: when Congress passed the HOME Program, they terminated the Rental Rehabilitation Program, the Section 312 Direct Loan Program, and the Urban Homesteading Program.

HOME Program support for homeownership can be through new construction, or rehabilitation for existing low-income homeowners, or downpayment assistance for low-income homebuyers. The HOME Program can also provide tenant-based rental assistance, which is generally provided for one- to two-years, although contract renewals are allowed under the statute.

remain affordable housing for very low-income elderly households for at least 40 years. Second, the program included its own rental assistance component - a Project Rental Assistance Contract (PRAC), intended to support ongoing maintenance and operations while keeping rents affordable to the lowest income tenants.

Alongside the revamped Section 202 program, the 1990 Act established the Section 811 Supportive Housing for Persons with Disabilities program. Section 811 as enacted included the same two-part subsidy component with a capital advance grant combined with ongoing PRAC rental assistance. As their program titles indicate, Section 202 serves low-income elderly tenants, and the Section 811 program supports housing for low-income individuals with disabilities and their families.

Homeless Programs: Permanent Supportive Housing

In 1987, in response to the homeless crisis, Congress enacted the Stewart B. McKinney Homeless Assistance Act, which included the Supportive Housing Demonstration Program. Later expanded in 1990 into the Shelter Plus Care program, this approach became a key component of the federal response to homelessness known as Permanent Supportive Housing (PSH). This program combined housing production or rehabilitation together with ongoing assistance, and supportive services for the homeless. Shelter Plus Care would be consolidated in a larger program structure, the Continuums of Care, under the HEARTH Act of 2009, which increased the focus on providing permanent supportive housing.[36]

Rental Assistance: from New Production to Preservation, 1974 to 2010s

As the major rental assistance programs grew, in terms of production of new units, with resulting increases in annual operating subsidies, the programs shifted from production to preservation of the existing stock. This shift is briefly described here.

Public Housing

As public housing shifted from a production program to preservation of the existing stock, additional programs were added to deal with modernization and capital needs, and particularly for large scale obsolete projects which also had often resulted in concentrated poverty and segregation. Specifically, in 1992, Congress established the National Commission on Severely Distressed Public Housing to understand the depth of physical needs across the public housing portfolio, much of which had exceeded its useful life or faced years of deferred maintenance. The resulting program, HOPE VI, provided funding for demolition and to replace public housing developments with mixed-income housing containing both public housing and market-rate units.

Total funding for the HOPE VI program was $6.96 billion from 1993 to 2011 (see Exhibit 3). Critics of HOPE VI have noted the program displaced some tenants and did not replace all the low-income units it demolished (Goetz, 2013). In 2010, Congress funded the Choice Neighborhoods Initiative to replace and expand upon HOPE VI with a one-for-one replacement requirement for subsidized units.

In 2011, Congress established the Rental Assistance Demonstration (RAD), which allows PHAs to convert public housing units to either PBVs or Project-Based Section 8 contracts, while leveraging additional investment for either rehabilitation or replacement projects. This conversion can in some instances include redevelopment and construction of new replacement units or substantial rehabilitation.

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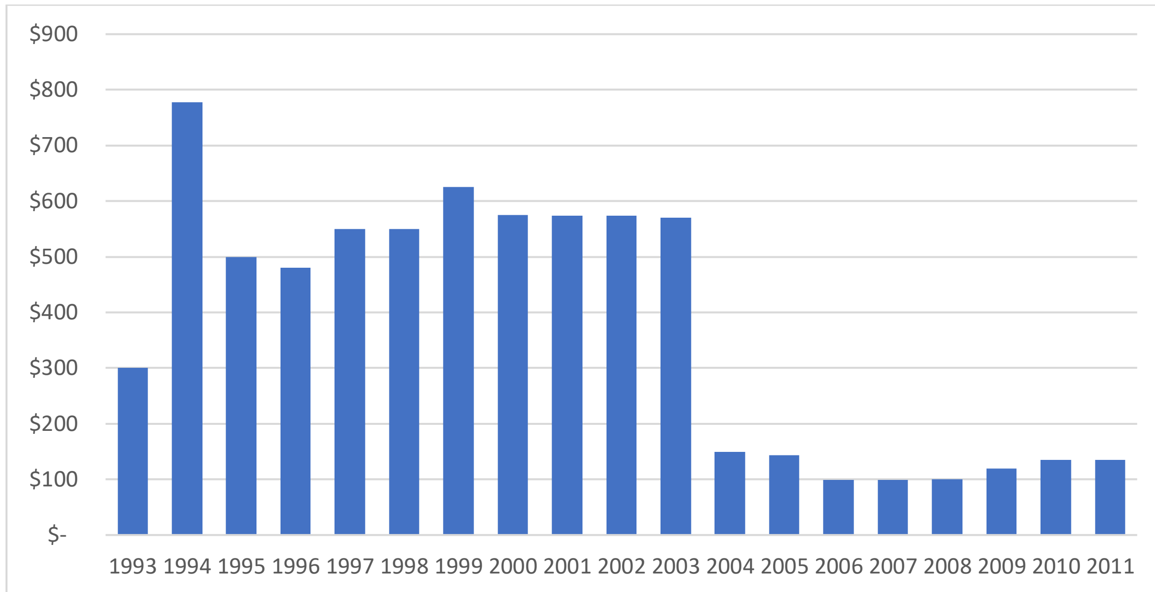
[36] See, e.g., HUD Exchange, "Shelter Plus Care" at https://www.hudexchange.info/programs/spc/ and HUD Exchange, "Homeless Emergency Assistance and Rapid Transition to Housing Act" at https://www.hudexchange.info/homelessness-assistance/hearth-act/.

Exhibit 3. HOPE VI Funding, in Millions, 1993-2011



Source: CRS, "HOPE VI Public Housing Revitalization Program: Background, Funding, and Issues," (January 2012). https://crsreports.congress.gov/product/pdf/RL/RL32236/18. Note, starting in FY 2010, Congress provided additional funding through the Choice Neighborhoods program.

Project-Based Section 8

Beyond public housing, privately owned affordable housing developed through the Section 8 portfolio also faced preservation challenges by the 1990s. This was due to increasing federal budget pressures, combined with the cost of renewing expiring Section 8 contracts; most of these contracts were entered into for terms of 20 years and initially put in place in the 1970s and 1980s resulting in a wave of funding renewal needs in the 1990s. Between 1998 and 2004, over 180,000 units were lost to the program from a combination of owner opt-outs and HUD enforcement actions - accounting for 14 percent of all Section 8 PBRA units in 1998. The Mark-to-Market effort stemmed potentially much larger losses by reducing Section 8 renewal costs - made possible primarily through mortgage restructuring and refinancing to reduce owner debt service costs.

More recently, annual contract opt outs from Project-based Section 8, while not eliminated, have been reduced from their peak. Generally, owners have been more likely to opt out of PBRA in places where they can obtain higher private market rents. By contrast, Project-based Section 8 opt-outs are less likely in areas with lower private market rents, as well as for mission-oriented non-profit owners (e.g. an ownership entity with a dedicated affordable housing mission), and for projects designated for serving

specific needs such as housing designated for the elderly, as opposed to general occupancy for all family types.[37]

Section II. Current Federal Supply Programs and Subsidies

Part 1: Production Subsidies and Incentives

Most affordable housing construction projects in the United States involve some form of federally supported financing. This section discusses federal tools that expand the supply of capital for affordable housing development and rehabilitation.

In the private, profit-motivated market, developers and investors build rental housing because of its potential to generate profit through rental income. Occupancy by low- and moderate-income tenants yields less rental income than occupancy by higher-income tenants, especially if the rent is affordable to lower-income tenants. In addition, low- and moderate-income households are relatively more likely to experience income disruptions. Consequently, housing development projects that serve low- and moderate-income households face challenges in attracting investors and financing due to low rental income streams and perceptions of risk.

These federal tools enhance the profitability of investing in housing for low- and moderate-income tenants and reduce credit risk-related financing costs. They include tax expenditure policies such as the LIHTC, federal mortgage insurance, direct loans and grants, and affordable housing requirements for government-sponsored entities.

Exhibit 4 summarizes the program requirements, including affordability limits, and the total number of units produced by the federal subsidies and incentives covered in this part.

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[37] See HUD PD&R, "Multifamily Properties: Opting In, Opting Out and Remaining Affordable," (January 2006), available at: https://www.huduser.gov/publications/pdf/opting_in.pdf; and HUD, PD&R, "Opting In, Opting Out a Decade Later," (2015) at https://www.huduser.gov/portal/publications/mdrt/opting_in_opting_out.html. See also, generally, HUD Congressional Justifications for TBRA for annual funding expenditures for Tenant Protection Vouchers, generally used for PBRA opt outs or enforcement actions, as replacement units for public housing demolitions and dispositions, and other conversions.

Exhibit 4. Production Subsidies and Incentives - Units and Key Program Features

	Program	New Development or Preservation	Key Administrator	Federal Resources	Units Affected	Affordability Requirements
Subsidized Capital or Financing	Low-Income Housing Tax Credit	Both	State HFAs	Estimated forgone tax revenue in FY 2023: $10.55 billion[38]	Credits allocated in 2022 will support the production of 127,000 units.[39] As of 2021, 3 million units are under affordability restrictions.	Rent restriction based on the area median income. Likely not affordable to households with very little income without additional assistance.
	Tax-Exempt Private Activity Bonds	Both	State HFAs	Estimated forgone tax revenue in FY 2023: $2.09 billion[11]	Bond issues in 2022 will support the production of 60,000 units.[12]	Some units in projects receiving financing have rent restrictions based on the area median income.
	USDA Section 538 Loan Guarantee	Both	USDA	N/A[40]	In FY 2022, 76 Section 538 loans closed. The properties securing these loans have over 4,000 affordable housing units.	Rent restriction based on the area median income.
	USDA Direct Loans and Grants	Preservation	USDA	FY 2023 appropriation: $150 million	Over 400,000 units have active USDA financing as of 2023.	Rent restrictions based on target population and project characteristics.

Notes: FY = fiscal year. HFAs = housing finance agencies. N/A = not applicable. PBRA = Project-Based Rental Assistance. PHAs = public housing agencies. USDA = U.S. Department of Agriculture.

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[38] See U.S. Department of the Treasury, Office of Tax Analysis (2023). Note that tax expenditures for LIHTCs and private activity bonds are incurred in the years after the credit is awarded or the bond is issued.
[39] See National Council of State Housing Agencies (2023). This figure includes units from both the 70 percent present value (awarded from the States' LIHTC allocations) and 30 percent present value (automatic LIHTCs for bond-financed properties) credits.
[40] The Section 538 loan guarantee program is designed to operate at no cost to the federal treasury. Borrowers pay loan guarantee fees set high enough to cover expected losses due to claims. There is some risk that the insurance claims could be higher than expected, however, in which case the program could require funds from the federal treasury.

LIHTC and Treasury Bond Programs

Through credits and exemptions in the federal income tax code, the federal government incentivizes equity investments and lowers the cost of debt for affordable housing projects. These policies result in tax expenditures or reduced tax revenue. Two prominent policies, LIHTC and the federal income tax exemption for private activity bonds (tax-exempt PABs) issued to finance affordable housing development, together cost the federal government an estimated $12.64 billion in forgone tax revenue in fiscal year (FY) 2023.[41] Because LIHTC and private activity bonds are often used in tandem, they are discussed together in this section.

Low-Income Housing Tax Credits (LIHTC)

LIHTC encourages the private development of low-income rental housing by providing developers with a 10-year stream of federal tax credits in exchange for maintaining rent and income-based occupancy restrictions in the LIHTC-supported rental project. Developers typically sell the tax credits to investors and use the proceeds to reduce or eliminate the need for debt financing.[42] The reduced debt allows the property to operate with fewer or no additional monthly subsidies while receiving less rental income due to the rent restrictions.

There are two types of LIHTCs: the 30 percent present value credit and the 70 percent present value credit. Projects where at least 50 percent of eligible development costs are financed with tax-exempt PABs may by right receive the 30 percent present value credit. The 70 percent present value credit is awarded through a competitive process administered by state HFAs. The 70 percent present value and 30 percent present value are most commonly referred to as "9 percent" and "4 percent" tax credits, respectively. The 30 percent present value credit is intended to provide a 10-year stream of tax credits with a present value equal to 30 percent of the construction or rehabilitation costs associated with the affordable units. The present value is calculated using the applicable percentage, which is currently 4 percent.[43] The 70 percent present value LIHTC is intended to provide a 10-year stream of tax credits with a present value equal to 70 percent of the construction or rehabilitation costs associated with the affordable units. The present value of this credit is calculated using the applicable percentage, which is currently 9 percent.[44] Treasury's Internal Revenue Service allocates a maximum amount of 70 percent present value LIHTCs to each state based on a per capita formula. State HFAs then award their allocated credits to projects of their choosing.

Treasury: Private Activity Bonds (PABS)

Financing of affordable housing through tax-exempt PABs is generally also administered by HFAs. Purchasers of these bonds are willing to accept lower interest payments because the payments are tax-free, thus providing low-cost financing to the housing projects chosen by the HFA. The federal government limits the total volume of tax-exempt PABs that states are allowed to issue. Since affordable

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[41] See, U.S. Treasury Dept., "Tax Expenditures Fiscal Year 2024." https://home.treasury.gov/system/files/131/Tax-Expenditures-FY2024-update.pdf

[42] However, the price investors pay for the credits varies, so total funding for construction does not exactly equal the total tax credit awarded and, in some cases, can be considerably less.

[43] The applicable percentage was initially set at 4 percent in January 1987 and adjusted monthly based on the federal applicable percentage. A floor of 4 percent was established in the Consolidated Appropriations Act of 2021, effective January 2021. At that time, the applicable percentage was 3.09 percent.

[44] The applicable percentage was initially set at 9 percent in January 1987 and adjusted monthly based on the federal applicable percentage. A floor of 9 percent was established in the Housing and Economic Recovery Act of 2009, effective July 2008. At that time, the applicable percentage was 7.93 percent.

housing is only one purpose out of the group of "private activities" for which states may issue PABs, states must choose how much of their tax-exempt PAB limit to issue for affordable housing projects.

LIHTC: Affordability Levels

Affordable housing projects that receive LIHTCs must comply with tenant income limits and maximum rents for a minimum of 30 years, although an opt-out provision allows owners to exit these restrictions after 15 years under certain circumstances.[45] At the time a property is placed into service, the owner must choose to enforce one of three income limit options:

> 1) reserve at least 20 percent of the building's units for households earning no more than 50 percent of area median income;
>
> 2) reserve at least 40 percent of the building's units for households earning no more than 60 percent of area median income; or
>
> 3) reserve at least 40 percent of the building's units for households earning an *average* income of no more than 60 percent of area median income, with households being able to earn up to 80 percent of the area median income.

The income limits are only applicable for initial qualification. After moving in, a tenant's income does not affect their tenancy. In practice, owners usually reserve almost all units in the project for low-income households to maximize the LIHTC subsidy.[46]

Unlike HUD rental assistance programs, where, in general, a household's rent is set based on their specific income, maximum rents in units under LIHTC restrictions are equal to 30 percent of the elected income limit. Thus, a household living in the LIHTC unit will pay more than 30 percent of its income in rent if its income is below the LIHTC income limit for its unit and the landlord chooses to set the rent at the maximum allowed under the LIHTC restrictions. The household in this example may receive additional assistance, such as a Section 8 Housing Choice Voucher (HCV), as many LIHTC tenants do, that would reduce the rent owed to an affordable level. However, according to LIHTC tenant data collected by HUD in 2021, approximately 40 percent of households in LIHTC units pay more than 30 percent of their income in rent.[47]

Private Activity Bonds: Affordability

For tax-exempt PABs, federal law requires that rental housing financed with tax-exempt bonds sets aside at least 40 percent of units for households with incomes under 60 percent of the area median or 20 percent

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[45] Properties may exit the LIHTC affordability restrictions before completing the 30-year affordability period if owners request to sell the property through the "qualified contract" process, where the HFA seeks a buyer to continue operating the property as affordable housing. If a buyer is not found within a year, the LIHTC affordability restrictions end. A property may also exit the LIHTC affordability restrictions early if it is subject to foreclosure.

[46] The LIHTC subsidy increases with the number of income- and rent-restricted units. Thus, minimizing the number of market-rate units maximizes the LIHTC subsidy.

[47] For tenant data, see tabulations of LIHTC tenant data by state at https://www.huduser.gov/portal/datasets/lihtc/tenant.html.

On rent limits, note also that the maximum allowable rent may be increased for units in which the tenant receives Section 8 HCV rental assistance and where the PHA payment standard is higher than the initial LIHTC rent limit. The LIHTC program also includes a statutory prohibition against refusing to rent to Section 8 rental assistance recipients solely on the basis of that assistance (See: 26 USC 42 (h)(6)(B)(iv), accessed at: https://www.law.cornell.edu/uscode/text/26/42. The HOME program has a similar prohibition on refusing to rent to Section 8 HCV recipients.

of units for households with incomes under 50 percent of the area median. These occupancy restrictions generally last for a 15-year "qualified project period." The tax code does not specify rent limits for bond-financed affordable housing. However, state and local bond issuers often add additional affordability requirements, and tax-exempt PABs are usually used with LIHTCs, which often involve rent limits and an incentive to designate more affordable units. If an affordable rental housing project uses tax-exempt bond financing to finance at least 50 percent of eligible project costs, the project may by right receive 4 percent LIHTCs if the owner agrees to meet LIHTC affordability requirements and other restrictions.

Federal Resources for the Low-Income Housing Tax Credit and Tax-Exempt Rental Housing Bonds

In 2023, the federal government authorized State HFAs to award a total of $9.460 billion in tax credits for the 9 percent LIHTC, while states were authorized to issue a total of $43.830 billion in tax-exempt bonds to finance private activities. According to the National Council of State Housing Agencies 2022 Factbook, over $12 billion in tax-exempt private activity bonds were issued for multifamily housing.

The federal government incurs tax expenditures during the 10-year period in which investors who have purchased LIHTCs claim the credit. Thus, each year's expenditure pays credit holders the incentive they were promised for investing in housing projects that have already been placed in service. Treasury estimates that LIHTCs cost the federal government $11.280 billion in FY 2022 and $10.550 billion in FY 2023 in forgone tax revenue. In addition to the cost of the tax credits, owners also claim depreciation deductions for these buildings. The Tax Cuts and Jobs Act of 2018 provides owners an additional first-year depreciation bonus for properties placed in service after September 27, 2017, through December 31, 2026. Treasury estimates that the exclusion of interest on rental housing bonds from taxable income cost the federal government $2.090 billion in FY 2022 and $2.090 billion again in FY 2023 in forgone tax revenue.[48]

Affordable Housing Supplied Through the Low-Income Housing Tax Credit and Tax-Exempt Rental Housing Bonds

According to the National Council of State Housing Agencies 2022 Factbook, developers received tax credits to develop just over 127,000 affordable housing units in 2022; about 46 percent of these units received competitive 70 percent present value credits, often referred to as *9 percent credits*, that are awarded by HFAs from their LIHTC allocations. The remainder received 30 percent present value credits, often referred to as *4 percent credits*, automatically granted when at least 50 percent of the project's eligible costs are financed with tax-exempt PABs.

According to HUD's LIHTC Properties Placed in Service database, over 52,000 projects with 3.3 million LIHTC affordable housing units were placed in service between 1987 and 2021. About one-half of the units financed with LIHTCs have been newly constructed units, and the remaining involve the acquisition and rehabilitation of existing structures.

FHA Mortgage Finance

Beginning with the National Housing Act of 1934, federal insurance for the private lending market has been instrumental in facilitating the availability of capital to build multifamily rental housing. Federal loan insurance programs expand credit availability and lower the cost of debt for affordable housing projects by reducing lenders' credit risk. They encourage investment in affordable housing, which can be perceived as risky by lenders. Developers and owners who receive insured loans pay mortgage insurance

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[48] See U.S. Treasury Dept., "Tax Expenditures Fiscal Year 2024." https://home.treasury.gov/system/files/131/Tax-Expenditures-FY2024-update.pdf

premiums to the federal government. The premiums are designed to cover the costs of the expected claims the government will pay lenders due to defaults on insured loans.

HUD's FHA multifamily mortgage insurance programs insure loans for rental housing construction, rehabilitation, acquisition, and refinancing. FHA insurance is available to both affordable and market-rate properties and does not impose affordability restrictions on rent and occupancy. USDA's Section 538 Multifamily Housing Loan Guarantee focuses specifically on housing for low- and moderate-income households in rural areas, small towns, and tribal lands and does include affordability restrictions.

The federal government, through the Government National Mortgage Association (Ginnie Mae) - a government-owned corporation within HUD - further facilitates the availability of capital for loans with FHA or USDA loan insurance by providing an additional guarantee of timely payments to investors in mortgage-backed securities made up of loans with federal insurance.

FHA Multifamily Mortgage Insurance

HUD administers the FHA multifamily mortgage insurance programs. Although FHA mortgage insurance does not come with income-based occupancy restrictions or rent limits, it is often an important federal tool used alongside other subsidies with affordability restrictions in affordable housing projects. The guarantee of payment to the lender in the event of a claim diminishes the default risk premium for mortgage loans, and the longer and fully amortized loan term results in monthly mortgage payments that are less than the monthly mortgage payments under non-insured financing with shorter loan terms. These savings, in turn, reduce the overall costs of developing and maintaining housing. FHA insurance can improve the feasibility of affordable housing projects that would otherwise not materialize due to the higher financing costs and lender risk intolerance.

With each mortgage it insures, HUD conducts market and risk analysis to weigh the benefits of renewed capital investment in the community against the financial risks to the government. If a borrower defaults and a claim is filed, HUD takes possession of the mortgage note or property and seeks to recover losses.

FHA insurance supports lending for both market-rate and affordable multifamily rental housing (as well as certain healthcare facilities such as residential care facilities and hospitals). For the purposes of loan insurance, FHA categorizes properties as "affordable" if at least 10%, or "broadly affordable" if at or 90 percent, of units in the property participate in a project-based affordable housing program such as Section 8 PBRA, LIHTC, local inclusionary zoning, or other income-restricted affordability programs. About 40 percent of FHA insurance endorsement volume for apartments in FY 2020 through FY 2022 fell into the affordable categories.[49] Generally, FHA offers insurance for loans secured by these affordable properties at lower insurance premiums than for market-rate properties.[50] Some FHA multifamily mortgage insurance programs also allow affordable projects to have higher loan-to-value ratios than market-rate projects.

FHA insurance supports both construction projects and acquisition or refinance transactions. FHA offers insurance for loans financing the construction or substantial rehabilitation of multifamily rental housing under the Section 221(d)(4), Section 220, and Section 231 programs. It insures loans for the refinance or purchase of existing multifamily rental housing under the Section 223(f) and in the case of the Section 223(a)(7) programs provides refinancing for projects already in HUD's portfolio. FHA also offers a credit

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[49] See HUD Multifamily Production data at https://www.hud.gov/program_offices/housing/mfh/mfdata/mfproduction.

[50] Properties with certain green building certifications also get a significant discount on their insurance premiums. See https://www.hud.gov/program_offices/housing/mfh/green.

enhancement specifically geared toward helping to finance affordable housing though its Section 542(b) and section 542(c) risk sharing programs. Under Section 542 of the Housing and Community Development Act of 1992, as amended, FHA insures only a portion of the losses in the event of a default, sharing the risk in partnership with a state or local HFA, Fannie Mae, or Freddie Mac, or other Qualified Participating Entities. FHA's other multifamily mortgage insurance programs include: (1) Section 213 for mortgage loans to facilitate the construction, substantial rehabilitation, and purchase of cooperative housing projects; (2) Section 207 for mortgage loans to facilitate the construction or substantial rehabilitation of multifamily manufactured home parks; and (3) Section 241(a) for supplemental mortgage loans to finance repairs, additions, and improvements to multifamily rental housing and health care facilities with FHA insured first mortgages or HUD-held mortgages..

Federal Resources for FHA Multifamily Mortgage Insurance

FHA multifamily mortgage insurance programs are designed to operate at no cost to the federal treasury. Borrowers pay insurance premiums set high enough to cover expected losses due to claims. The collected premiums go into a reserve account from which HUD pays claims. As of 2023, insurance commitments in FY 2021, 2022, and 2023 in all FHA mortgage insurance programs have negative credit subsidy rates.[51] There is some risk that the insurance claims for a particular year could be higher than expected, however, in which case the program could require funds from the federal treasury.

Affordable Housing Supplied through FHA Multifamily Mortgage Insurance

In FY 2022, FHA multifamily mortgage insurance programs issued insurance endorsements for 1,352 loans totaling $24.28 billion. This total includes loans secured by healthcare facilities and market-rate (not "affordable" as defined in this paper) rental properties. Of the total insurance endorsements issued in FY 2022, 579 loans totaling $8.96 billion were secured by affordable housing properties.[52] Of these loans, 71 were for new construction projects, 93 were for rehabilitation or improvement projects, and 415 were for purchase or refinance loans that did not involve construction.

USDA RHS Mortgage Finance Programs

RHS Section 538 Multifamily Housing Loan Guarantee

Like FHA multifamily mortgage insurance programs, the USDA's Section 538 Multifamily Housing Loan Guarantee provides mortgage insurance to reduce financing costs and improve the feasibility of multifamily housing projects. It focuses specifically on affordable housing for low- and moderate-income households in rural areas, small towns, and tribal lands. Rents in housing with active Section 538 financing are capped at 30 percent of 115 percent of the area median income, and new tenants must have incomes under 115 percent of the area median income adjusted for family size. Section 538 loans are commonly used to rehabilitate and refinance existing properties that were built with USDA Section 515 direct loans. They are also typically used alongside LIHTC.

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[51] Credit subsidy rates represent the estimated lifetime cost to the Government of a loan guarantee, calculated on a net present value basis, and expressed as a percentage of the volume of loans guaranteed. See https://www.whitehouse.gov/wp-content/uploads/2022/04/cr_supp_fy2023.pdf for estimates. The subsidy estimates presented in this report for loan guarantee programs follow the Fair Credit Reporting Act methodology of discounting future gains and losses at the appropriate rate for Treasury securities. An alternative methodology called the Fair Value approach applies a market risk premium to the subsidy calculations, resulting in estimates of positive subsidies (for a description of the different approaches, see Congressional Budget Office (2023)).

[52] Meaning at least 10 percent of units participate in a project-based affordable housing program such as Section 8 PBRA, LIHTC, or local inclusionary zoning or other income-restricted affordability programs.

Federal Resources for Section 538 Loan Guarantees

The Section 538 loan guarantee program is designed to operate at no cost to the federal treasury. Borrowers pay loan guarantee fees that are set high enough to cover expected losses due to claims. As of 2023, insurance commitments in every year since FY 2011 have negative credit subsidy rates. There is some risk that the insurance claims for a particular year could be higher than expected, in which case the program could require funds from the federal treasury.

Affordable Housing Supplied through Section 538 Loan Guarantees

In FY 2022, 76 loans totaling $222 million closed with Section 538 loan insurance. The 73 properties securing these loans have just over 4,000 affordable housing units. Almost 60 percent of these loans financed rehabilitation projects, and 88 percent were used alongside LIHTC.

RHS Direct Loans and Grants

Through several programs operated by the USDA, the federal government directly provides capital to affordable housing development or rehabilitation projects as a loan or a grant.[53] The USDA has been financing affordable housing in rural areas through direct loans and grants since the early 1960s. The most prominent of these USDA programs is Section 515 Rural Rental Housing, which provides direct loans at a 1 percent interest rate and loan terms of up to 50 years to developers who demonstrate that they cannot access other sources of financing that would produce housing with rents affordable to low- and moderate-income tenants. Although Section 515 loans financed the development of nearly 28,000 properties with over 533,000 affordable housing units between the early 1960s and 2010, since 2011, new Section 515 loans have been used exclusively for preserving existing Section 515 properties.

The USDA Section 514/516 Farm Labor Housing program has also operated since the 1960s. It includes both direct loans and direct grants and only supports housing for low- and moderate-income farm laborers. Section 514/516 has supported the development of over 30,000 affordable housing units for farm laborers as of FY 2020. Tenants in Section 515 and Section 514/516 housing must have moderate or lower incomes, and rents are capped at a basic rent calculated to meet the operating expenses of the project.[54]

Since 2017, the USDA has used the Multifamily Housing Preservation and Revitalization (MPR) program as a vehicle for making direct loans, debt deferrals, and grants needed to preserve existing Section 515 and Section 514/516 properties. USDA requires properties that receive an MPR loan or grant to continue to provide affordable rental housing for at least 20 years.

Federal Resources for RHS Rental Housing Direct Loans and Grants

For new Section 515 direct loans, Congress appropriated $70 million in FY 2023 and $60 million in FY 2024. For new Section 514 and Section 516 farm labor housing loans and grants, Congress appropriated

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[53] Although the USDA's direct loan and grant programs are the only tools discussed in this section, aspects of other federal affordable housing programs also involve direct federal funding for the development and rehabilitation of affordable housing, including capital funding for public housing, the capital advance components of the Section 202 and Section 811 supportive housing programs, and block grants where federal funding passes through state and local grantees. These tools are discussed elsewhere in this paper.

[54] The "moderate income" limit in USDA Section 515 and Section 514/516 housing is $5,500 above 80 percent of the median income for the area.

$30 million in FY 2023 and $22.5 million in FY 2024. For the Multifamily Preservation and Revitalization program, Congress appropriated $36 million in FY 2023 and $30 million in FY 2024.[55]

Affordable Housing Supplied Through RHS Rental Housing Direct Loans and Grants

As of September 2023, nearly 12,500 properties with 390,000 units have active Section 515 loans. About 85 percent of these units also receive project-based rental assistance through either USDA's Section 521 program (about 75 percent of all units) or HUD's Section 8 PBRA program (about 9 percent of all units).

Nearly 500 properties with 17,000 units have active Section 514 loans. About 75 percent of these units also receive project-based rental assistance through USDA's Section 521 program.

GSEs: Federal Home Loan Banks, Fannie Mae and Freddie Mac

Fannie Mae, Freddie Mac, and the 11 Federal Home Loan Banks (FHLBs) are known as government-sponsored enterprises (GSEs) because they were chartered by Congress to serve a public purpose but are not considered federal agencies. Although the primary purpose of these GSEs is to provide liquidity to the overall housing finance system, and most of the loans they support are for owner-occupied single-family housing, they also must meet several federal requirements to promote investment in affordable housing. The Federal Housing Finance Agency (FHFA) supervises and regulates Fannie Mae, Freddie Mac, and the FHLBs to ensure they fulfill their mission, including the affordable housing requirements.

The Federal Home Loan Bank Act requires each FHLB to have an Affordable Housing Program (AHP) that awards 10 percent of its net income to support the acquisition, construction, or rehabilitation of affordable single- and multifamily housing.[56] Most of the awards are made on a competitive basis as grants or below-market-rate loans through FHLB-affiliated financial institutions. In 2021, FHLBs awarded about $220 million in AHP funding to support almost 20,000 units of affordable rental housing.

Fannie Mae and Freddie Mac are subject to affordable housing goals established by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. The multifamily housing component of the goals includes a percentage of the overall number of units in multifamily properties financed by mortgages purchased by Fannie Mae and Freddie Mac that are affordable to low-income families. There are also subgoals related to affordability to lower-income groups and support for affordable properties with fewer than 50 units. FHFA has set the low-income affordability goal for 2023 and 2024 at 61 percent of goal-eligible units. Fannie Mae and Freddie Mac each reached about 69 percent of low-income affordable units among goal-eligible units in 2021, or a total of just over 750,000 rental units affordable to low-income families in properties financed by mortgages purchased in 2021.

Fannie Mae and Freddie Mac are also required to meet "Duty to Serve" goals established by the Housing and Economic Recovery Act of 2008 that target specific underserved markets. Under Duty to Serve, FHFA requires Fannie Mae and Freddie Mac to develop and implement plans to ensure their activities serve three underserved housing finance markets defined in the statute: manufactured housing, affordable housing preservation, and high-needs rural areas. Duty to Serve plans target homeowners and renters who

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[55] See Consolidated Appropriations Act for FY 2024 (Public Law 118-42) at https://www.congress.gov/118/plaws/publ42/PLAW-118publ42.pdf and Conference Report explanatory text - Congressional Record, March 5, 2024, at page S1290 https://www.congress.gov/118/crec/2024/03/05/170/39/CREC-2024-03-05.pdf. See also USDA, "FY 2025 Budget Summary," https://www.usda.gov/sites/default/files/documents/2025-usda-budget-summary.pdf

[56] AHP subsidies must be used to fund home ownership for households with incomes at or below 80 percent of the area median income or for rental housing projects in which at least 20 percent of the units will be occupied by and affordable to households with incomes at or below 50 percent of the area median income.

make less than the area median income. The plans must also specifically address how the activities of Fannie Mae and Freddie Mac support affordable housing properties with other federal subsidies described in this paper, such as LIHTC and Section 8 PBRA. FHFA conducts annual evaluations of Fannie Mae and Freddie Mac compliance with Duty to Serve requirements.

Part 2: Rental Assistance

This section describes federal programs that feature ongoing assistance payments to providers of rental housing with income-based rents. "Deep subsidy" programs provide affordable housing such that participating low-income tenants generally pay no more than 30 percent of their income in rent. Unlike the construction capital policies and programs discussed in the previous section, the programs in this section involve ongoing assistance payments to housing providers that support the operation of affordable housing.

In the 1970s and 1980s, the federal government used project-based Section 8 contracts to spur affordable housing construction. Since then, project-based rental assistance has primarily been used to preserve the affordability and financial and physical health of existing affordable housing.

Note that Section 8 Housing Choice Vouchers (HCV) are referenced in this section, but not covered extensively because of the paper's focus on supply production and preservation. The overall HCV program is presented generally, with several program activity options – Project-Based Vouchers and HUD-Veterans Affairs Supportive Housing (HUD-VASH) covered in more detail.

This section also discusses the modernized Section 202 Supportive Housing for the Elderly, as amended in 1990, and the Section 811 Supportive Housing for Persons with Disabilities programs. While these programs include rental assistance, they also have important program components for Capital Advance grants to directly subsidize construction as well. They are included in this part on rental assistance for ease of organizational purposes, although the capital grant aspects could be considered as construction subsidies from the previous section.

Exhibit 5 shows the program requirements, including affordability limits, and total number of units currently active in the rental assistance programs covered here.

Exhibit 5. Rental Assistance Programs: Units and Key Program Features

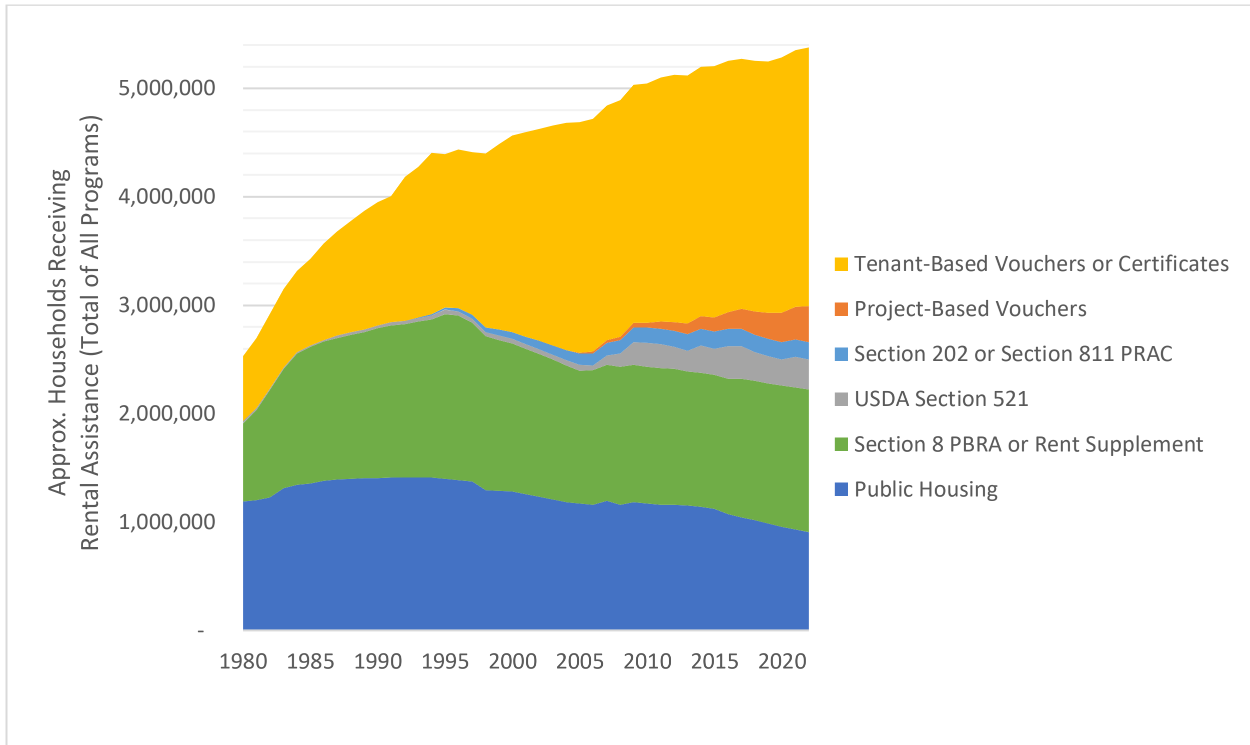
Program	New Development or Preservation	Key Administrator	Federal Resources	Units Affected	Affordability Requirements
Public Housing	Preservation	PHAs	FY 2023 appropriation: $8.51 billion	About 900,000 active units as of December 2022.	"Deep subsidy"—rent generally limited to 30 percent of household income.
Section 8 PBRA	Preservation	HUD	FY 2023 appropriation: $14.9 billion	About 1,300,000 active units as of December 2022.	"Deep subsidy"—rent generally limited to 30 percent of household income.
USDA Section 521 Rental Assistance	Preservation	USDA	FY 2023 appropriation: $1.53 billion	About 280,000 active units as of 2022.	"Deep subsidy"—rent generally limited to 30 percent of household income.

Program	New Development or Preservation	Key Administrator	Federal Resources	Units Affected	Affordability Requirements
Project-Based Vouchers (PBVs)	Both	PHAs	Funded as part of Housing Choice Voucher program, which received $30.25 billion in FY 2023 appropriations. PBVs make up about 13 percent of all vouchers.	About 330,000 active units as of December 2022.	"Deep subsidy"—rent generally limited to 30 percent of household income. Note HCV assisted households are permitted to pay more than 30 percent of their income for rent, in order to access private market housing that may be above the "payment standard" limit.
Section 202 and Section 811 Supportive Housing	Both	HUD	FY 2023 appropriation: $1.44 billion	About 160,000 units with rental assistance as of December 2022. The FY 2023 appropriation is also intended to support construction of over 2,000 new units.	"Deep subsidy"—rent generally limited to 30 percent of household income. Occupancy limited to elderly or disabled tenants.

Notes: FY = fiscal year. HFAs = housing finance agencies. N/A = not applicable. PBRA = Project-Based Rental Assistance. PHAs = public housing agencies. USDA = U.S. Department of Agriculture.

Exhibit 6 shows the growth in the number of assisted households in key rental assistance programs between 1980 and 2022.

Exhibit 6. Federal "Deep Subsidy" Rental Assistance, 1980–2022



PBRA = project-based rental assistance.
PRAC = Project Rental Assistance Contracts.
USDA = U.S. Department of Agriculture.
Sources: For tenant-based vouchers or certificates and project-based vouchers: Olsen (2003), HUD (2022), analysis of HUD administrative data. For Section 202 or Section 811 PRAC: HUD (2022) and analysis of HUD administrative data. For USDA Section 521: Housing Assistance Council (2022: 115–117) and USDA Budget Congressional Justifications (FY 2023), available at https://www.usda.gov/cj. For Section 8 PBRA or Rent Supplement: Olsen (2003), HUD (2022), and HUD Budget Congressional Justifications (FY 2013, 2011, and 2005), available at https://www.hud.gov/budget. For Public Housing: Olsen (2003) and HUD (2022).

Exhibit 6 indicates that much of the apparent growth in the Section 8 Housing Choice Voucher program was due to conversion of units from the place-based housing assistance programs, particularly Public Housing and Project-based Section 8. This was due to a variety of factors, including demolition of distressed or obsolete public housing projects, with replacement housing provided to existing resident through tenant-based Section 8 vouchers. Conversions from the Project-Based Section 8 program included private owners opting out from renewal of assistance contracts, or HUD enforcement actions for management or physical conditions issues, again with replacement housing assistance provided to affected families through tenant-based vouchers. More recently, public housing, as well as several other "legacy" place-based assistance programs (Section 8 Mod Rehab, the Rental Assistance Program, and the Rent Supplement program) were also converted to either PBVs (which appear in the HCV category) or in some cases to Project Based Section 8, which accounts for the slight growth in this program in more recent years. Increases in Section 8 HCVs also included provision of new incremental tenant-based vouchers in some years (e.g. FY 1999-2001), as well as "special purpose vouchers" including Family Unification Program, Mainstream Voucher and "NED" vouchers for non-elderly disabled persons, and HUD-VASH vouchers for veterans supportive housing.

Public Housing

The oldest federal program that provides deep subsidy rental housing to low-income households is public housing. The administrative structure of public housing pairs local administration and local discretion with federal funding and federal requirements for affordability. Public housing units are owned and managed by quasi-governmental PHAs that are organized at the state or local level. State laws dictate how PHAs are chartered and structured, and local government officials typically appoint members of PHA governing boards. PHAs have Annual Contributions Contracts with the federal government in which PHAs agree to administer their properties according to federal rules and regulations. In exchange, they receive federal operating and capital funding. Residents living in public housing pay income-based rents that are generally set at 30 percent of household income. In 2022, the average monthly household payment toward rent and utilities in public housing was $374.

Most of the public housing stock is over 45 years old. Production of new public housing slowed after the mid-1970s, and federal law prohibits any net increase in the number of public housing units operated by each PHA above the number of units in 1999. A majority of public housing units were constructed before 1975.[57] Funds from the federal government, together with tenants' rent payments, enable PHAs to operate the housing. However, many of the aging public housing properties have large maintenance backlogs. The most recent comprehensive capital needs assessment, completed in 2010, estimated the backlog of unmet public housing capital needs at approximately $26 billion ($36 billion in 2023 dollars).[58] Since 2010, the backlog has grown because appropriations to the public housing Capital Fund have not been sufficient to meet new capital needs.

The Capital Fund Financing Program (CFFP), Mixed-Finance Initiative, Choice Neighborhoods program, and the Rental Assistance Demonstration (RAD) are HUD programs that allow PHAs to access capital to preserve public housing outside direct federal public housing funding. Through CFFP and the Mixed-Finance Initiative, PHAs borrow private capital and use other public and nonprofit funds to make improvements. Choice Neighborhoods is a competitive grant program that provides funds to revitalize entire neighborhoods with public housing or other HUD-assisted housing. RAD converts public housing to project-based Section 8 assistance. Both Choice Neighborhoods and RAD allow PHAs to access private capital sources and are discussed in more detail below.

Public housing units can also be lost to the inventory through PHA authority for demolition or disposition, for example as projects become obsolete.[59] Once the demolition or disposition is approved, the PHA must notify affected residents and issue Tenant Protection Vouchers (TPV) to residents who must move. TPVs are HCVs that allow the household to continue receiving rental assistance in a private unit. TPVs are also

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[57] Docter, Benny, and Matha Galvez. "The Future of Public Housing Fact Sheet." Urban Institute (2019). https://www.urban.org/sites/default/files/publication/101482/the_future_of_public_housing_public_housing_fact_sheet_1.pdf.

[58] Using the Bureau of Labor Statistics' Consumer Price Index for all Urban Consumers to adjust for inflation. See, HUD PD&R, Capital Needs in the Public Housing Program," (2010), https://www.hud.gov/sites/documents/PH_CAPITAL_NEEDS.PDF

[59] PHAs do not need HUD approval for de minimis demolition, which is generally the demolition of the lesser of five dwelling units or 5 percent of public housing dwelling units within a 5-year period. See 24 CFR § 970.27.

used to protect tenants from displacement in the Project-Based Section 8 program, for example if contracts are not renewed based on owner opt-outs from the program.[60]

Federal Resources for Public Housing

Congress appropriates two primary streams of funding to PHAs to help make up the difference between what PHAs receive in rent from tenants and what it costs to operate and maintain public housing. Operating funds are meant to fund the day-to-day operations of public housing, such as administration and staffing, utilities, routine maintenance, insurance, and security. Capital funds are meant to help pay for modernization needs, such as replacing a roof or a heating and cooling system or remodeling units. Both operating funds and capital funds are allocated to PHAs using a formula based on the size of the population housed, the amount of rent collected from tenants, and maintenance and capital needs, among other factors.

Congress appropriated a total of $8.452 billion in public housing funding in FY 2022 and a total of $8.514 billion in FY 2023. The FY 2023 appropriation included $5.11 billion for operating funds, $3.20 billion for capital funds, and $205 million for other public housing grants (including Emergency Disaster Grants, Safety and Security Grants, and lead-based paint mitigation). In FY 2024, Congress provided $5.476 billion in operating subsidies and $3.2 billion for the capital fund program.

Affordable Housing Supplied through Public Housing

As of 2023, state and local PHAs were operating just under 900,000 units of public housing. To be eligible to live in public housing, a household must be a low-income family with an annual income at or below 80 percent of the area median income, adjusted for family size. No less than 40 percent of households admitted into public housing must earn less than 30 percent of the area's median family income. Over 70 percent of households in public housing meet this extremely low-income criterion. In 2022, public housing households had an average annual income of approximately $17,000. The administrative structure of public housing allows local PHAs to tailor public housing to suit local needs, including establishing admission preferences for certain households, such as older adults, people with disabilities, and persons experiencing homelessness, as well as the working poor. In addition, some public housing developments are restricted to seniors or families with an adult member who has a disability. Of all households in public housing units in 2023, 37 percent were headed by people over the age of 62 and 34 percent included children.

Choice Neighborhoods

Choice Neighborhoods is a competitive HUD grant program that takes a broader approach to preserving and revitalizing public housing and other HUD-assisted housing. Instead of focusing just on the assisted housing units, Choice Neighborhood grants support locally driven strategies that address the entire neighborhood containing the assisted housing project. The grant program centers around three core goals: 1) rehabilitating distressed public and assisted housing, 2) improving outcomes for the people in that housing, and 3) improving the surrounding neighborhood by using funds to revitalize vacant properties, businesses, services, and schools. PHAs, local governments, and tribal entities are eligible to apply for Choice Neighborhood grants and may do so in partnership with private owners of HUD-assisted properties and private developers.

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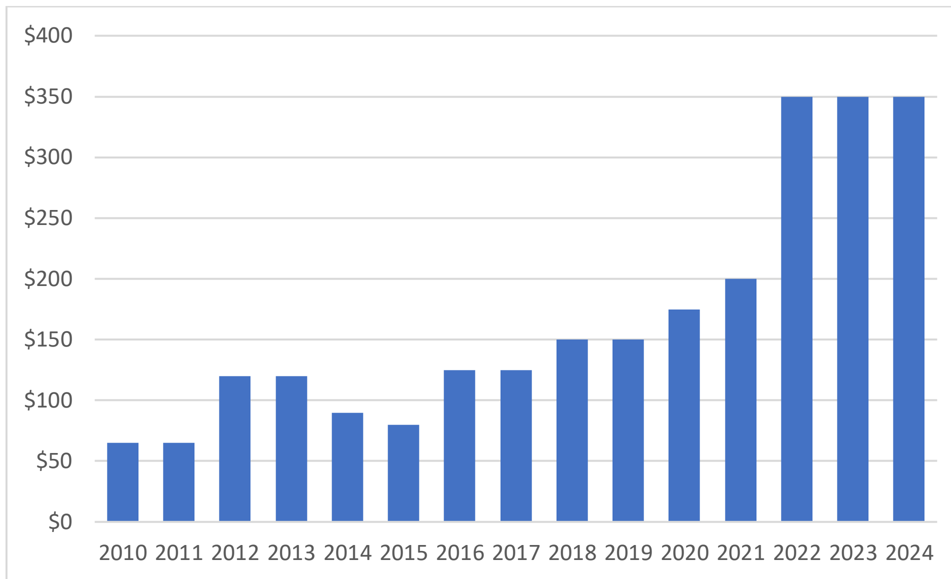
[60] In FY 2024, HUD received $337 million for Tenant Protection Vouchers. See Consolidated Appropriations Act for FY 2024 (Public Law 118-42) at https://www.congress.gov/118/plaws/publ42/PLAW-118publ42.pdf

Choice Neighborhoods includes both implementation grants and smaller planning grants. Implementation grants fund the replacement of severely distressed public housing and privately owned, HUD-assisted properties with energy-efficient, mixed-income properties, either through rehabilitation or demolition and new construction. All housing redevelopment activities are also required to be implemented in conjunction with a comprehensive neighborhood revitalization plan. Grant funds may also be used to provide supportive services and make improvements to the surrounding community.

Federal Resources for Choice Neighborhoods Grants

Congress has appropriated $2.515 billion for Choice Neighborhood grants since 2010 (see Exhibit 7). Congress provided $75 million for the program in the FY 2024 appropriations act.

Exhibit 7. Choice Neighborhoods Funding, in millions, 2010-2024



Source: https://www.hud.gov/program_offices/cfo/budget.

Choice Neighborhoods expanded on the HOPE VI program described in Section I in three ways. First, grant funds can be used to address distressed conditions in the privately owned Project-Based Section 8 stock, while HOPE VI was focused solely on the public housing program. Second, Choice Neighborhoods grants can be used for a wider array of eligible activities for community or neighborhood development. In practice, the wider array of possible activities would still be subject to funding availability. Third, Choice Neighborhoods added back a partial requirement for a one-to-one replacement of hard units, although there are exceptions.

Affordable Housing Supplied Through Choice Neighborhoods Grants

Recipients of Choice Neighborhoods implementation grants use them to carry out plans containing a diverse array of eligible activities, including housing construction and rehabilitation, as well as supportive services for residents, economic development, and improvement of community facilities. Construction and rehabilitation projects typically involve funding from multiple sources, including the other federal tools described in this paper. HUD expects the eight FY 2022 implementation grants to support approximately 5,200 new housing units (HUD, 2024).

HOPE VI accounted for over 240,000 demolished units from the public housing inventory. It is important to note this does not cover the total number of demolitions, particularly in the 1990s through 2000s period. In some cases, PHAs that carried out demolitions outside of HOPE VI could still receive a grant for redevelopment with possible construction of new replacement units. Any affected households would be provided with either alternative public housing from the PHA's remaining inventory or in the majority of cases, a tenant-based HCV. HCVs could in some cases also be provided as replacement units for other (i.e. vacant units), although HUD's policy on this was not consistent over time. Note also that HOPE VI grants could fund the initial year of replacement tenant-based vouchers, thus the total funding available for demolition or hard unit reconstruction is not as significant as it might appear from the total appropriations. Renewal of HCVs would then shift to the Section 8 appropriations account.

Section 8 Project-Based Rental Assistance

Like households in public housing, tenants in Section 8 Project-Based Rental Assistance (PBRA) properties pay an income-based rent that is generally equal to 30 percent of their income. The owners of PBRA housing have contracts with HUD under which they agree to provide affordable housing in exchange for monthly Housing Assistance Payments (HAPs) from the federal government. PBRA housing may be owned by private companies or individuals, nonprofit organizations, or PHAs. At this time, Project-Based Section 8 contracts are now renewed on an annual basis, utilizing enacted appropriations for the current federal fiscal year.

PBRA contracts were initially used to incentivize affordable housing development, or support for existing affordable housing projects in the 1970s and 1980s. Since the 1990s, however, PBRA has functioned as an affordable housing preservation program—HUD typically does not issue new PBRA contracts, except for limited use in the RAD preservation program.[61] The monthly rental assistance payments to projects under contract and the continued renewal of the contracts provide deep rental subsidies to support ongoing operations, maintenance and other rehabilitation needs of the PBRA stock, both in terms of the physical and financial health of projects and the continued affordability to low-income tenants.

Similar to the public housing program, assisted households living in Section 8 PBRA units receive "deep subsidy" rental assistance, meaning that each household pays an affordable rent based on its income. In 2022, the average monthly household payment toward rent and utilities in PBRA was $337. HUD pays a monthly HAP to the owner that makes up the difference between tenant rent payments and a total rent stipulated in the contract, which is generally based on market rents in the area. In 2022, the average monthly HAP in PBRA was $936.

The continued affordability to low-income tenants of units currently under PBRA contracts can be tenuous. Owners can opt out of the PBRA program at each contract renewal, potentially leading to conversion of the property to a nonresidential or non-affordable use.[62] PBRA units can also be lost to physical deterioration and financial or other management failures by the owner. If a unit's PBRA contract ends, either through contract termination or the owner's or HUD's decision not to renew, tenants living in an assisted unit may receive Tenant Protection Vouchers (TPV) In some cases, a TPV may be an enhanced

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[61] HUD can also transfer Section 8 PBRA budget authority from a project or building to an alternative site, with HUD approval under specific conditions, the Section 8(bb) transfer to maintain the inventory of long-term affordable units. As such Section 8(bb) does not increase the number of units receiving Section 8 PBRA but can be used for redevelopment or repositioning of the overall stock. See https://www.hud.gov/program_offices/housing/mfh/8bb.
[62] Owners with PBRA contracts initiated under RAD transactions do not have the option to opt out; they must renew. For more information about PBRA contracts, see https://www.hud.gov/program_offices/housing/mfh/rfp/s8bkinfo.

voucher, which may pay a subsidy above the normal PHA payment standard limit in order to prevent displacement or eviction. Once a tenant moves with a TPV or enhanced voucher, the assistance converts to a standard HCV, and the previous unit no longer receives any subsidy.

Federal Resources for Section 8 PBRA

Congress appropriated $15.61 billion in FY 2024 for the renewal of existing contracts.

Affordable Housing Supplied through Section 8 PBRA

As of 2022, project owners reported just over 1.3 million units under the Section 8 PBRA contract. To be eligible to live in a PBRA unit, a household must be a low-income family with an annual income at or below 80 percent of the area median income, adjusted for family size. However, additional regulations and prioritization requirements mean that, in practice, nearly all households that move into PBRA units are very low-income families with annual incomes that do not exceed 50 percent of the area median income. In 2023, Section 8 PBRA households had an average annual income of $15,455.

Like public housing, many PBRA projects are further targeted toward specific groups of low-income households, including older adults and persons with disabilities. Of all households in PBRA units in 2023, 53 percent were headed by people over the age of 62 and 25 percent included children. A significant portion of PBRA units is in housing projects developed with the older Section 202 Direct Loan program, either developed after 1974 with the Section 8 NC/SR program or with Section 8 LMSA contracts attached to buildings developed before 1974.

Project-Based Vouchers (PBVs)

The Project-Based Voucher program is a component of the Housing Choice Voucher Program, HUD's largest rental assistance program (serving 2.4 million households as of 2023). PHAs, which administer the HCV program, can allocate a portion of their HCV funds to be used as project-based vouchers (PBVs). Using the PBV authority, state and local PHAs may enter contracts with private landlords to attach voucher assistance to specific units at a property. PBVs differ from the majority of the HCV program, which is tenant-based (i.e., recipient households find and lease from a willing landlord any eligible unit of their choosing after enrolling in the program). With PBVs, PHAs enter contracts with landlords for up to 20 years. Although PHAs choose whether to project base any of their voucher funding, federal rules limit the number of PBVs allowed per PHA and within a single housing project. Generally, PBVs cannot be attached to more than one-quarter of the units in a single housing property (or 25 units, whichever is greater).

Several potential motivations exist for providing project-based assistance, such as through PBVs. Unlike tenant-based HCVs, PBVs can be assigned to units as part of a construction or rehabilitation project. Since PBVs provide an ongoing source of stable income for the property, they can be integral to attracting sufficient debt and equity sources to make the construction or rehabilitation project possible. Project-basing can also address issues present in some markets and neighborhoods where voucher holders are unable to find suitable units willing to accept their tenant-based vouchers, and at the same time promote mixed-income housing. PBVs can be used to ensure that assisted tenants with special needs have access to supportive services located in or near their apartments.

PBVs can also be provided through the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program, under which HUD contributes rental subsidies and the Department of Veterans Affairs provides funding for services to reduce and eliminate homelessness for veterans.

Note on Program Names.

To avoid confusion, while these two HUD rental programs have similar names, the Project-Based Voucher (PBV) program is distinct from the Project-Based Section 8 program. PBVs are an option under the larger Section 8 Housing Choice Voucher program and administered by state and local public housing agencies (PHAs). Project-Based Section 8 subsidies on the other hand are provided directly from HUD through contracts with private multifamily property owners.

Federal Resources for Project-Based Vouchers

Federal payments for PBV rental assistance contracts come out of the total HCV funding allocated by HUD to PHAs. The Congressional appropriation for the entire HCV program was $28.49 billion in FY 2024. Part of this funding is used for PBVs, though most of it supports tenant-based rental assistance. Project-based vouchers currently make up about 13 percent of all assisted units in the HCV program.

Affordable Housing Supplied Through Project-Based Vouchers

As of May 2023, PHAs had about 323,000 PBVs attached to rental units, 90 percent of which were leased to tenants. PBV units represent about 13 percent of all HCVs.[63]

Section 202 and Section 811 Supportive Housing

HUD's Section 202 Supportive Housing for the Elderly and Section 811 Supportive Housing for Persons with Disabilities programs provide project-based rental assistance to low-income households through contracts known as Project Rental Assistance Contracts (PRACs). Section 202 and Section 811 are unique because they are targeted toward populations with special needs and allow more of the rental assistance subsidy to fund supportive services. In addition, both programs include a capital grant component that funds the construction of new Section 202 or Section 811 units.

Tenants in Section 202 and Section 811 receive "deep subsidy" rental assistance, meaning that each household pays an affordable rent based on its income (generally 30 percent). Eligibility for both programs is restricted to very low-income households, with Section 202 units only serving households with at least one person over 62 and Section 811 units only serving households with at least one person with a disability.

In addition to the rental assistance component, Section 202 and Section 811 capital advances provide interest-free, forgivable loans to nonprofit developers or sponsors developing new housing. The capital advance does not have to be repaid if the housing built serves qualified (either persons over 62 years old or persons with disabilities, depending on the program), very low-income tenants for at least 40 years. HUD awards capital advances on a competitive basis through Notices of Funding Opportunity (NOFOs). Successful applicants often use the funds as gap financing alongside other sources of funding, including LIHTC equity, HOME grants, other government subsidies, and debt. After they are built, units developed with capital advances receive rental assistance through PRACs. Since the inception of PRACs in the early 1990s, Congress has appropriated enough funding to continually renew all Section 202 and Section 811 PRACs.

Federal Resources for the Section 202 and Section 811 Supportive Housing Programs

The FY 2024 appropriations law provided $913 million total for the Section 202 program and $208 million for the Section 811 program. Funding for both programs is intended to cover renewal of expiring rental assistance contracts for existing projects, as well as service coordinators to assist residents, with the remaining limited portion available for new capital advance grants.

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[63] See https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/dashboard.

Affordable Housing Supplied Through the Section 202 and Section 811 Supportive Housing Programs

As of 2022, project owners reported about 125,000 units under Section 202 PRACs (with 97 percent occupancy) and 34,000 units under Section 811 PRACs (with 92 percent occupancy). The $110 million in FY 2023 appropriations for Section 202 capital advance expansion is expected to support approximately 1,000 new units of Section 202 affordable housing. The $149 million in FY 2023 appropriations for Section 811 capital advance expansion is expected to support approximately 1,200 new units of Section 811 affordable housing.

Section 811 Project Rental Assistance (PRA)

The Section 811 program includes another component called the Section 811 Project Rental Assistance (PRA) program, which HUD awards through competitive NOFOs to state housing agencies. Authorized by the Frank Melville Supportive Housing Investment Act of 2010, the PRA program is a joint effort of HUD and the HHS' Centers for Medicare and Medicaid Services. Essentially, the program uses the Section 811 program structure as a vehicle for a project-based rental assistance component, with housing construction and development funded by mixed finance sources, principally Low-Income Housing Tax Credits allocated by State Housing Finance agencies (HFAs), together with services from State Medicaid agencies and other providers. The 811 PRA program thus shifted responsibility for the housing development component from the original 811 Capital Advance grants to mixed finance sources, while providing the deep rental subsidy via Section 811. Thus, a smaller appropriation within the Section 811 program account could potentially incentivize a larger number of new units by accessing outside financing rather than providing the total funding needed for full Section 811 capital advance grants. State HFAs, which allocate LIHTCs receive an advanced allocation of Section 811 PRA units to attach as rental assistance with LIHTC financing used for construction or rehabilitation.[64]

Rental Assistance Demonstration

RAD began in 2012 and allows public housing and other properties participating in certain HUD project-based assistance programs[65] to convert from their original subsidy and regulatory platform to either the Section 8 PBRA or PBV platform, giving PHAs and owners of aging affordable housing the opportunity to enter long-term contracts that facilitate the financing of improvements.

While still relying on annual appropriations, Section 8 RAD contracts seek to provide stable and predictable income through long-term affordability use agreements, which can also allow PHAs and other owners to secure non-HUD capital sources for modernization and preservation needs. RAD projects can leverage funding sources such as LIHTC, investor equity, mortgage debt financing, other HUD grant funding, and more. For public housing properties that convert, the long-term contracts are legally required to be renewed in perpetuity, ensuring that the units remain permanently affordable. PHAs and owners retain or replace units on a one-for-one basis, with limited exceptions, and ensure that existing residents be able to remain or return to their now-PBRA or PBV unit (or a replacement unit) with no rescreening.

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[64] See HUD, PD&R, "HUD Section 811 PRA Project Rental Assistance Program Phase II Evaluation Final Report Implementation and Short-Term Outcomes," (March 2020), at: https://www.huduser.gov/portal/publications/Section-811-Phase-II.html.

[65] Although RAD is most prominently a preservation strategy for Public Housing properties, it can also be used to convert units from certain legacy rental assistance programs to PBV or PBRA contracts. Units receiving Rent Supplement, Rental Assistance Payment, Section 8 Moderate Rehabilitation, Moderate Rehab Single Room Occupancy, and Section 202 Project Rental Assistance Contract assistance may be eligible for conversion through RAD.

A 2019 analysis of the RAD program found that RAD allowed converted projects to finance construction that addresses rehabilitation needs and improved physical conditions relative to non-RAD comparison properties. Most projects evaluated also saw improved financial viability and were meeting their debt obligations.[66]

Federal Resources for RAD

RAD is implemented without any dedicated appropriation. Instead, the same amount of per-unit funding that would have been delivered through public housing funding, the pre-conversion rental assistance program, or the voucher assistance that would normally be triggered following a property's exit from HUD-assistance is delivered through PBRA or PBV HAPs. However, some of the infusion of capital to RAD projects, including equity induced by competitive LIHTC and any other federal grant sources represents an opportunity cost in non-RAD units that did not receive this support.[67] As of December 2024, HUD reports that RAD public housing conversion transactions have secured over $20 billion in construction investment.[68]

Affordable Housing Supplied Through RAD

Between the first conversions in 2013 and December 2024, over 220,000 public housing units have been converted via RAD, with 64 percent converting to PBV and 36 percent converting to PBRA. In addition, over 46,000 units converted from other legacy HUD assistance programs to PBV and PBRA via RAD.

The USDA administers a project-based rental assistance program like HUD's Section 8 PBRA that can only be used to assist units in projects that have active USDA financing. Just over three-quarters of units in projects with active USDA Section 515 or 514 loans receive Section 521 rental assistance.[69]

Households living in Section 521 units receive "deep subsidy" rental assistance, meaning that each household generally pays 30 percent of their family monthly adjusted income for rent and utilities. Section 521 rental assistance covers the difference between the tenant's payment and the USDA-approved cost of rent for the predetermined unit. The monthly rental assistance payments to projects under contract and the continued renewal of the contracts are vital to the preservation of affordable housing, both in terms of the physical and financial health of projects and the continued affordability to low-income tenants.

Federal Resources for Section 521 Rental Assistance

Congress appropriated the following amounts for Section 521 rental assistance: $1.45 billion in FY 2022; $1.488 billion in FY 2023 and $1.608 billion in FY 2024.

Affordable Housing Supplied Through Section 521 Rental Assistance

In FY 2022, Section 521 assisted about 279,000 households. All Section 521-assisted households live in projects with active USDA financing. To be eligible to live in a unit with Section 521 rental assistance, households must have an annual income at or below 80 percent of the area median income, adjusted for family size.

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[66] HUD, PD&R, "Evaluation of HUD's Rental Assistance Demonstration (RAD)," (2019) https://www.huduser.gov/portal/sites/default/files/pdf/RAD-Evaluation-Final-Report.pdf.
[67] In addition, some critics argue that owners may face higher debt service payments after a RAD conversion, which could affect their financial viability.
[68] See https://www.radresource.net/pha_data2020.cfm.
[69] See https://www.sc.egov.usda.gov/data/data_files.html.

Part 3: Block Grants

The federal government operates several programs that distribute funding to state, local, tribal, and territorial governments to support the development and preservation of affordable housing, among other uses. These programs allow grantees to use the funding as they see fit within the rules of the applicable program. Starting with the inception of the Community Development Block Grant (CDBG) program in 1974, these programs represent a trend in affordable housing policy in the United States where more programmatic choices are made by sub-federal entities. Delivering federal resources in this devolved way allows state and local governments to tailor affordable tools to the specific needs and conditions of each area; however, it makes federal oversight over the use of funds more complex.

HUD administers several block grant programs that distribute funds to grantees across the United States for a variety of affordable housing and economic development activities. The current primary block grant program dedicated for production and rehabilitation of affordable housing is the HOME program. HOME utilizes a flexible block grant structure to allow state and local government agencies to fund new construction or housing rehab and for either homeownership needs or affordable rental housing. Other HUD programs covered in this section include, the HUD Housing Trust Fund (HTF) Program, Native American block grants, and Homeless Assistance Grants administered through the Continuums of Care. Also addressed is the Department of Treasury's Capital Magnet Fund.

Exhibit 8 summarizes the program requirements, including affordability limits, for the block grant programs covered in this part.

Exhibit 8. HOME and Other Block Grant Programs

Program	**New Development or Preservation**	**Key Organizations**	**Federal Resources** **(FY 23 Funding)**	**Affordability Requirements**
Total: Block Grants (total, combined)[70]	Varies by program	State, local and tribal Government agencies	$10.5 billion combined	Varies
HOME	Supports New Construction (NC) and Rehabilitation for both: • Single Family Homeownership (buyers & current owners)	State and local government housing + community development agencies	$1.5 billion	20 percent of rental units in multifamily projects affordable at 50% of area median income (AMI)

[70] Under a block grant, a pool of annual funding is provided to grantees, usually states, local governments and/or Native American tribal governments, who can choose among a set of eligible activities to address housing or community development needs in their jurisdictions. The block grants described here include HUD's HOME Investment Partnerships, HUD's Housing Trust Fund, HUD's Native American grant programs, HUD's Housing Opportunity for Persons with AIDS, HUD's Community Development Block Grant (CDBG), Treasury's Capital Magnet Fund, and HUD's Homelessness Assistance Grants.

Program	New Development or Preservation	Key Organizations	Federal Resources (FY 23 Funding)	Affordability Requirements
	○ NC ○ Rehab ○ Direct Homebuyer Assistance (e.g. downpayments) • Multifamily Rental Housing – New Construction, Acquisition, Rehab			100% of units occupied by households at or below 80% AMI
CDBG	Eligible activities: • Rehab of Rental Housing • Land/Site Acquisition • Infrastructure support - water/sewer connections, sidewalks New Construction **not** allowed, with limited exceptions	State and local government housing + community development agencies	$3.3 billion (* does not include CDBG-DR or EDI grants)	General rule: Any rental property with 3 or more units, at least 51% of units must be occupied by low- or moderate-income households (i.e. under 80% or 50% of HUD AMI or less).[71]
Housing Trust Fund	New Construction and Rehab	State government housing agencies (and designated local agencies)	$354 million (GSE contribution, not discretionary appropriation)	HTF assisted units set rents at 30% of the HUD ELI threshold.
Homeless Assistance Grants	New construction and rehab for Permanent Supportive Housing (PSH) Preservation of existing PSH	Continuums of Care	$3.633 billion	PSH generally serves persons at entry (1) experiencing chronic homelessness or residing in transitional housing or rapid re-housing[72]

[71] For CDBG rental rehab requirements, see HUD, "Basically CDBG," Chapter 4, (July 2012), page 4-10. At: https://files.hudexchange.info/resources/documents/Basically-CDBG-Chapter-4-Housing.pdf.

[72] HUD Final Rule on Definition of Homelessness: Definition of Homeless: https://www.govinfo.gov/content/pkg/FR-2011-12-05/pdf/2011-30942.pdf.

Program	New Development or Preservation	Key Organizations	Federal Resources (FY 23 Funding)	Affordability Requirements
NAHBG		Tribally Designated Housing Entities	$787 million for formula allocations $150 million in additional competitive grants	In general, assisted families must meet the Low Income threshold (80% of HUD AMI).
HOPWA		State and local government housing + community development agencies	$499 million	Low-income persons (80% of HUD AMI) that are medically diagnosed with HIV/AIDS and their immediate family members.
Treasury Department's Capital Magnet Fund		CDFIs Private non-profit housing organizations	$321 million (GSE contribution, not discretionary appropriation)	At least 20 percent of the units in each rental project must be affordable to families making less than 50 percent of AMI.

Sources: For funding sources: https://www.hud.gov/program_offices/cfo/reports/fy25_CJ and FY 23 Consolidated Appropriations Act https://www.congress.gov/117/plaws/publ328/PLAW-117publ328.pdf. For HOME Program rental affordability requirements: https://www.hudexchange.info/resources/using-home-htf-funds-within-opportunity-zones/the-essentials-of-oz-home-htf-programs/the-home-program-101-basics/key-home-rental-housing-requirements/

The HOME Investment Partnerships Program (HOME)

HOME is a federal block grant program distributed to states and localities through annual formula allocations, with the sole purpose of funding affordable housing activities to benefit low-income households. The program was originally enacted by the Cranston-Gonzalez National Affordable Housing Act of 1990. HUD distributes HOME grants to states, cities, and counties that then choose how to spend the funds. Grantees have the flexibility to use HOME funds according to their unique affordable housing needs and strategies. State and local governments use HOME funds to support housing construction and rehabilitation and to assist low-income families for both homeownership and rental housing. All HOME funds must benefit low-income families (those with incomes at or below 80 percent of the area median income). Use of federal HOME funds also requires a 25 percent nonfederal funding match from the grantee.

HOME funds can be used to finance affordable housing activities that primarily fall into four categories: 1) rehabilitation of owner-occupied housing; 2) assistance to homebuyers; 3) acquisition, rehabilitation, or construction of rental housing; and 4) tenant-based rental assistance. HOME projects must also meet income-targeting requirements and affordability requirements. Since HOME began in the early 1990s,

grantees have used approximately 55 percent of their HOME funds to support the development or rehabilitation of rental housing, 26 percent to assist homebuyers, 16 percent for rehabilitation of owner-occupied housing, and 4 percent for tenant-based rental assistance.[73]

When HOME is used to support the development or rehabilitation of rental housing, grantees usually pass the funds to developers who combine them with other affordable housing development resources, such as LIHTC equity. HOME funds come with occupancy and rent restrictions that remain in effect for a 5- to 20-year period, depending on the amount of HOME funds invested. During the affordability period, 90 percent of tenants in HOME-assisted rental units at initial occupancy must have incomes at or below 60 percent of the area median income. Rents in these units cannot exceed limits set by HUD.

Federal Resources for HOME

Funding for HOME is appropriated by Congress and distributed by HUD according to formulas based on housing needs data, including affordable housing supply, rental housing costs, substandard rental housing and poverty rate.[74] For FY 2024, Congress appropriated $1.25 billion for the HOME program.

Note that funding has fluctuated over time – see Exhibit 9 below for major funding changes in certain years. Also of note, the American Rescue Plan Act (ARP), enacted in March 2021, provided an additional $5 billion for the HOME Program, intended for affordable housing needs related to the COVID pandemic.[75]

Affordable Housing Supplied Through HOME

Based on HOME-funded activity completions reported between 2018 and 2022, each year grantees use their HOME allocation to develop or preserve (through acquisition, rehabilitation, or construction) about 7,800 HOME affordable rental units. Approximately 250,000 rental units are under active HOME affordability restrictions as of April 2023.

In addition to developing and preserving affordable rental units, in recent years, grantees have used HOME funds to assist, on average each year, 6,500 households purchasing homes, rehabilitation for 3,100 low-income homeowners for repairs on their own homes, and tenant-based rental assistance for 12,600 very low-income renter households. Grantees choose how to allocate HOME funding among eligible activity types based on state and local consolidated plans developed with community input.

Exhibit 9 shows HOME program funding in selected years showing overall trends in total appropriations. Note that not all years are presented, but only for years with major changes or to convey the overall trend over time. Dollar figures are not adjusted for inflation.

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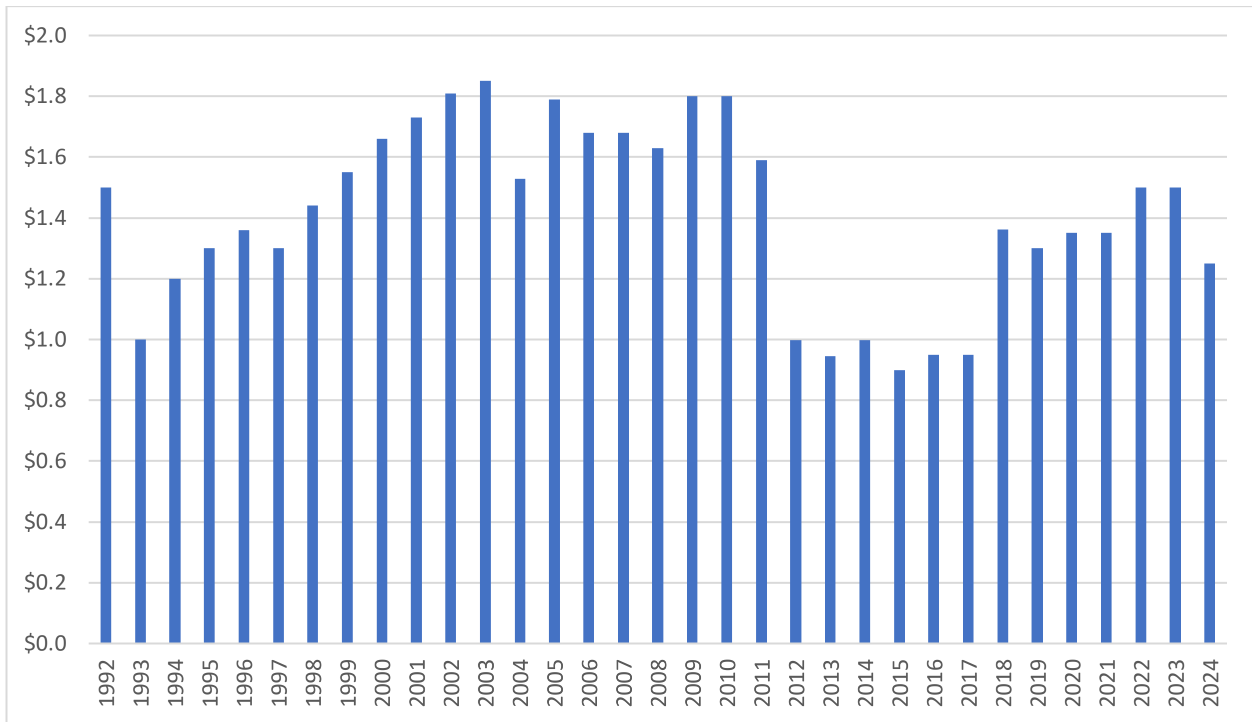
[73] Based on HUD administrative data on completed activities through September 2022.
[74] See 24 CFR 92.50 at https://www.ecfr.gov/current/title-24/subtitle-A/part-92
[75] Section 3205 of the American Rescue Plan Act, at https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf; and https://www.hudexchange.info/programs/home-arp/overview/.

Exhibit 9. HOME Funding, in billions, 1992-2024



Source: HUD Congressional Justifications, available from: https://www.hud.gov/program_offices/cfo/budget

Community Development Block Grant (CDBG)

CDBG provides flexible grants to states, cities, counties, and insular areas to support housing, economic development, public facilities, and other community development activities. Grantees have wide latitude in choosing how to spend the funds they receive; however, they must engage the public in the planning process and demonstrate that their CDBG-funded activities align with at least one of three national objectives: 1) benefit low- and moderate-income persons, 2) aid in the prevention or elimination of slums and blight, or 3) meet certain urgent community development needs. The flexibility of CDBG allows communities to design strategies tailored to their own circumstances.

In general, CDBG is not used for new construction of affordable housing, with eligible activities provided explicitly for rehabilitation of existing rental housing and for some activities that indirectly support construction, including site acquisition or provision of necessary infrastructure (i.e. sewer and water connections) for new housing subdivisions or developments. The bulk of CDBG obligations are for non-housing uses (e.g. economic or neighborhood development). At the time of enactment, alternative programs were available for housing production, including public housing development, the new Section 8 New Construction and Substantial Rehabilitation program, and FHA multifamily insurance programs.

CDBG Funding

Funding for CDBG is appropriated by Congress and distributed by HUD using formulas that account for the population, poverty rate, and certain housing conditions of eligible state and local government grantees. HUD distributes approximately 70 percent of CDBG program funds to over 1,000 large cities and urban counties (known as *entitlement communities*). The remaining 30 percent of funds are allocated to states, which distribute them to smaller communities. U.S. territories (insular areas) also receive CDBG

allocations. Congress appropriated a total of $3.3 billion for CDBG in FY 2023 and again in FY 2024, not including supplemental emergency and disaster recovery appropriations discussed below.

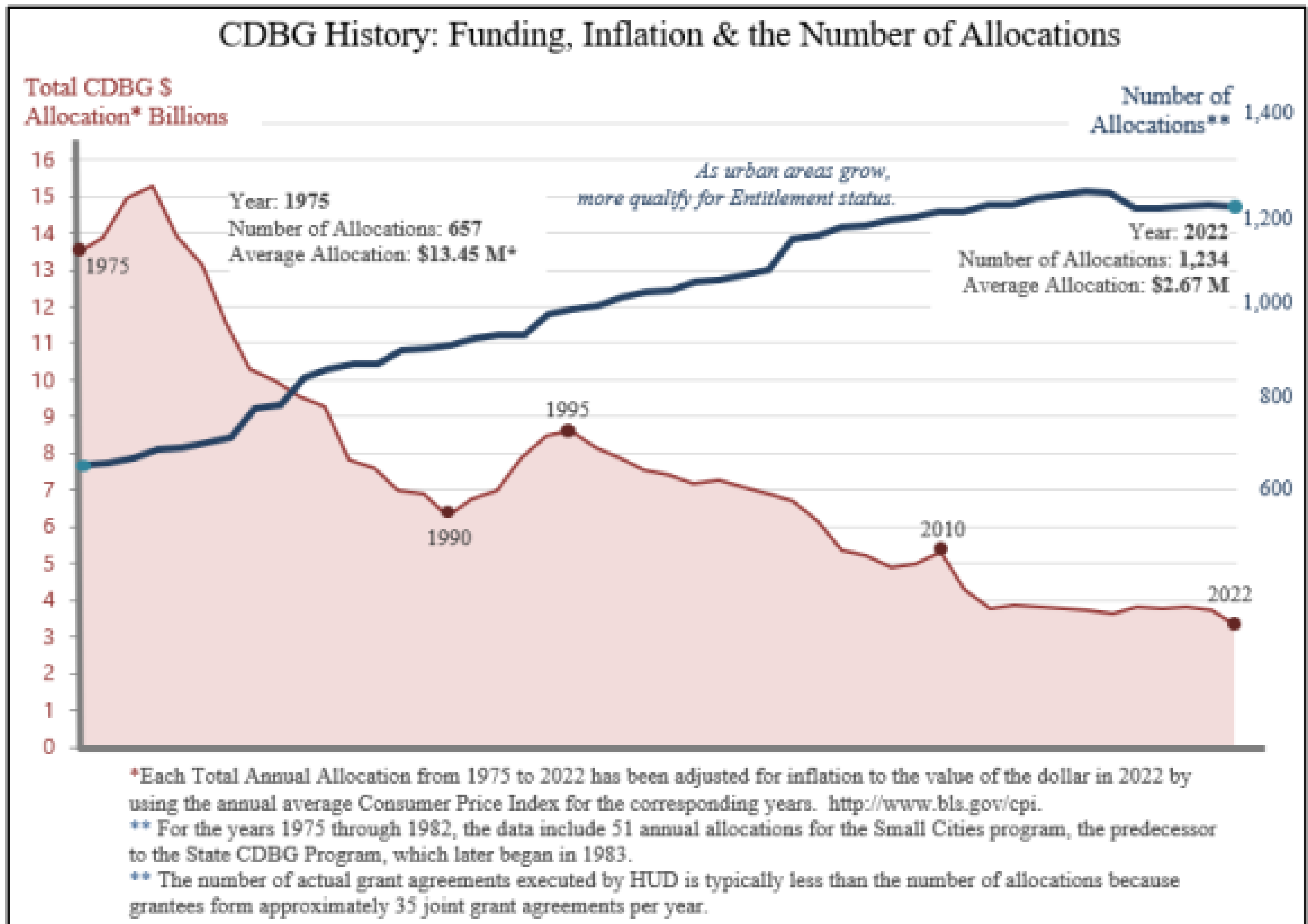
CDBG: History of Appropriations and Funding per Grantee

While CDBG continues to be funded at significant levels ($3.3 billion in FY 2024), the amounts available to individual state and local government formula recipients to undertake activities is impacted by several long-term factors. These include both long-term inflation and the expansion in the number of local government agencies that become eligible for formula distributions over time. Under the basic formula, any local municipality with a population of at least 50,000 persons, or county with at least 200,000 persons, are eligible for CDBG annual funding. The number of local entitlement jurisdictions has expanded from 657 in 1975 to over 1,200 jurisdictions in 2022.

In Exhibit 10 below, which is an excerpt from HUD's FY2024 Congressional Justification for the Community Development Fund, the red line, with shaded area below it, shows the size of the average funding allocation per grantee, with the change in funding, with a long-term decrease over time.[76] As shown, the average funding allocation per grantee (adjusted for inflation) has declined from over $5 million in the 1990s to $2.7 million in 2022.

[76] See https://www.hud.gov/sites/dfiles/CFO/documents/2024_CJ_Program_CDF.pdf.

Exhibit 10. CDBG Funding History



CDBG Disaster Recovery Grants (CDBG-DR)

The CDBG program is also HUD's primary vehicle for providing post-disaster recovery and rebuilding assistance to impacted communities and states.

Congress often provides supplemental spending through CDBG to meet long-term disaster recovery and mitigation needs in communities affected by disasters. HUD disburses these funds to states and localities using the CDBG program structure. The grants are known as *CDBG Disaster Recovery*, or *CDBG-DR*. Because Congress makes the supplemental appropriations in response to specific disasters, the amount of funding per year is highly variable and depends on the circumstances of that year and special Congressional action. Unlike CDBG, CDBG-DR is not a standing program with authorizing legislation. Each Congressional appropriation and HUD distribution of the funding includes its own rules and waivers of standard CDBG requirements, allowing the federal government to adapt to the specific needs presented by a particular disaster.

CDBG-DR appropriations typically mandate that most funds under the appropriation must be spent to meet recovery needs caused by the disaster or disasters stated in the act, assist the "most impacted and

distressed" areas, and address needs not met by other funding sources, such as property insurance payouts and disaster assistance from the Federal Emergency Management Agency and Small Business Administration. As of 2020, some CDBG-DR funds are set aside specifically for mitigation and are not limited to recovery from disaster damage. An analysis of CDBG-DR funds disbursed between FY 2006 and FY 2015 estimated that 20 percent of grantee activities were related to housing. The majority of housing activities were for homeowner compensation or assistance; 30 percent were for construction, rehabilitation, and acquisition; and 13 percent were for affordable rental housing, rental assistance, and renter relocation payments.[77]

Federal Resources for CDBG-DR

Funding for CDBG-DR is typically enacted after a major natural disaster event. While funding can be intermittent, in terms of scale there has been a massive increase over time in total funds provided. The level of funding for CDBG-DR has often exceeded the annual appropriation for the CDBG formula program itself. Following are examples of large-scale CDBG-DR appropriations and their associated disasters:

- 1992: Hurricane Andrew - $84 million
- 1993: Missouri floods - $450 million
- 1994: Northridge earthquake - $400 million
- 2007: Hurricanes Katrina, Rita, and Wilma - $20 billion
- 2011-2013: $15 billion for hurricanes plus recovery for previous years disaster events)
- 2017: $20 billion (hurricanes) plus $15 billion (disaster mitigation)[78]

Housing Trust Fund (HTF)

The federal Housing Trust Fund (HTF) is a block grant distributed to states by HUD based on a formula that accounts for the housing needs of very low- and extremely low-income renters in different states. Compared to HOME, HTF is more targeted toward the development of rental housing for households with extremely low incomes. It is primarily a rental housing production program. Grantees must use at least 80 percent of the HTF funds they receive to construct, rehabilitate, or operate rental housing. The authorizing statute permits the use of the remaining funds to support certain homebuyers and for administrative and planning costs.

Like under HOME, grantees can deploy HTF resources in multiple ways, including through grants, equity investments, and/or loans. HTF funds are typically used alongside other publicly supported sources for housing development like LIHTC equity. Grantees can also target specific populations such as persons experiencing homelessness, victims of domestic violence, and youth aging out of foster care. HTF funds used for affordable rental housing must also meet income targeting requirements, with at least 75 percent of funding benefiting ELI households (at or below 30 percent of area median income, or below the poverty line, whichever is greater), unless total HTF funding for that year is below $1 billion, in which case 100 percent of funds must be used to benefit such households. . HTF-supported rental units have minimum affordability periods of at least 30 years during which VLI and ELI occupancy restrictions and rent limits apply.

Federal Resources for HTF

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[77] HUD PD&R, "Housing Recovery and CDBG-DR," (2019) at: https://www.huduser.gov/portal/sites/default/files/pdf/HousingRecovery_CDBG-DR.pdf.

[78] For more detail on CDBG-DR grant funding and history, see https://www.hud.gov/program_offices/comm_planning/cdbg-dr/reports

HTF is not funded through Congressional appropriations, instead it receives contributions from Fannie Mae and Freddie Mac. The two GSEs are statutorily required to set aside and transfer to HUD a certain amount of funds based on the amount of mortgage debt they purchase. Thus, funding levels are highly dependent on secondary mortgage market conditions. In FY 2022, HTF received $740 million, and in FY 2023, HTF received $354 million.[79]

Affordable Housing Supplied Through HTF

Noting that the program is still ramping up and that funding levels are highly dependent on secondary mortgage market conditions, as of early 2023, just over 3,500 units of HTF-supported affordable housing had been completed with additional units funded but still in the pipeline for completion. These units received an average HTF investment of $110,500 per assisted unit. Most of the very and extremely low-income households living in HTF-supported rental units receive additional rental assistance subsidies, such as tenant- or project-based Section 8 HCVs.

Homelessness Assistance Grants

In 1986, Congress enacted the McKinney-Vento Homeless Assistance Act, which created federal grant programs to directly address the needs of people experiencing homelessness. Since 2009, these grants largely fall into two HUD programs: Continuum of Care (CoC) and Emergency Solutions Grants (ESG). CoC distributes most HUD homeless assistance funding. The *continuum of care* in the program's name refers to the community-based process that determines how the funds are spent. To receive funding, local governments and other organizations involved in homeless services and prevention activities within a particular geographic region must establish an advisory board and work in coordination to submit a single application to HUD for CoC funds. HUD evaluates applications from continuums of care across the United States and chooses projects that receive CoC funds. ESG funds, on the other hand, are allocated to cities, urban counties, states, and territories according to the same formula used to distribute CDBG funds. These recipients may then distribute all or a portion of the funds to service providers such as nonprofits or PHAs.

Distinct sets of regulations govern how grantees use their CoC and ESG funds. However, grantees use both programs to provide temporary housing, permanent housing, and supportive services to people experiencing or at risk of homelessness. In some cases, grantees use funds to acquire, rehabilitate, construct, or operate housing to provide temporary and permanent housing. Supportive services funded by CoC and ESG include a wide range of activities such as case management, housing counseling, childcare, education, job search, legal services, health services, and help with transportation, moving costs, and utility deposits. These programs also support street outreach, emergency shelters, and data analysis aimed at better understanding homelessness. Some states use Medicaid programs to fund the supportive services in CoC-funded permanent supportive housing for people experiencing homelessness (HUD Exchange, 2024).

Federal Resources for Homeless Assistance Grants

Congress appropriated a total of $3.633 billion for homeless assistance grants in FY 2023 and $4.051 billion in FY 2024. Through the CoC Program Competition, HUD makes awards to approximately 3,500 Permanent Supportive Housing Projects (HUD Exchange, 2024).

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[79] The two GSEs contribute 0.042 percent of their business activity, as measured by the dollar value of mortgage purchases. Of that total contribution, 65 percent goes to HUD's Housing Trust Fund and 35 percent to Treasury's Capital Magnet Fund.

For FY 2024, Congress added a new category of funding, under the title "COCBuilds," specifically to boost the supply of permanent supportive housing, with $100 million provided, "for one-time awards under the continuum of care program for new construction, acquisition, or rehabilitation of new permanent supportive housing."[80]

Native American Grant Programs

HUD's Office of Native American Programs (ONAP) administers the Indian Housing Block Grant (IHBG), Indian Community Development Block Grant (ICDBG), and Native Hawaiian Housing Block Grant (NHHBG). Grantees can use these funds for a range of affordable housing and community development activities, including developing and preserving affordable housing. ONAP grantees include federally recognized Indian tribes, tribally designated housing entities, state-recognized tribes, and the Hawaii Department of Hawaiian Home Lands. Generally, beneficiaries of these grants must be low- or moderate-income members of federally recognized Indian tribes, Alaska Native villages, or Native Hawaiians.

The largest of these grant programs is IHBG, which Congress created with the Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA). NAHASDA replaced earlier programs, including public housing in tribal areas, with a block grant that individual grantees can tailor to their own conditions and preferences. IHBG funds are allocated to grantees through a combination of formula and competitive grants and can be used for the development and rehabilitation of housing, operating assistance for existing housing and a variety of other eligible activities.

ICDBG is distributed to Native American tribes through a competitive grant application process for use in housing, community facilities, or economic development activities. Like CDBG, the funds must be used primarily to benefit low- and moderate-income persons.

NHHBG supports affordable housing activities by the Hawaii State Department of Hawaiian Home Lands for the benefit of low-income Native Hawaiians.

In FY 2022, Congress appropriated $922 million for IHBG (including $772 million for the formula allocation plus $150 million to be awarded through a competitive application process), $72 million for ICDBG, and $22 million for NHHBG. In FY 2023, Congress appropriated $937 million for IHBG (including $787 million for the formula allocation plus $150 million to be awarded through a competitive application process), $75 million for ICDBG, and $22 million for NHHBG. In FY 2024, funding for IHBG was increased to $1.111 billion.

Other Federal Block Grant Programs with Affordable Housing Activities

Housing Opportunities for Persons with AIDS (HOPWA)

Congress established HOPWA in 1992 to address the housing needs of low-income persons living with HIV/AIDS and their families by making grants to local governments, states, and nonprofits. HUD awards 90 percent of HOPWA funds by formula to states and eligible metropolitan statistical areas (MSAs) that meet thresholds regarding population, HIV/AIDS cases, and HIV/AIDS incidence. Recipient states and MSAs may allocate grants to nonprofit organizations or administer the funds through government

[80] Consolidated Appropriations Act for FY 2024 (Public Law 118-42) at https://www.congress.gov/118/plaws/publ42/PLAW-118publ42.pdf.

agencies. HOPWA grantees may use funds for a wide range of housing, social services, program planning, and development costs. Congress appropriated $450 million for HOPWA in FY 2022 and $499 million in FY 2023.

Treasury Department's Capital Magnet Fund

The Capital Magnet Fund (CMF) was established by the Housing and Economic Recovery Act of 2008. Similar to the funding mechanism for HUD's Housing Trust Fund program, the CMF is financed from proceeds from the GSE's, Fannie Mae and Freddie Mac. The Department of the Treasury's Community Development Financial Institutions (CDFI) office manages the program, which has a wider range of eligible uses compared to HTF. CMF funds are distributed on a competitive basis to both CDFIs and nonprofit affordable housing organizations. Funds can be used for economic development activities as well as for developing and preserving affordable housing. CMF emphasizes using the federal funds to attract private investment to eligible activities that benefit low-income families or revitalize areas of economic distress. Applications for CMF grants must demonstrate that they can leverage the grant by at least a ratio of 10 to 1 through other government grants or loans, loans or other financing from private financial institutions or other entities, or equity investments from private sources.

As stated, the CMF is not funded through Congressional appropriations and instead receives contributions from Fannie Mae and Freddie Mac. The two GSEs are statutorily required to set aside and transfer to Treasury a certain amount of funds based on the amount of mortgage debt they purchase. Thus, funding levels are highly dependent on secondary mortgage market conditions. In FY 2022, CMF received $398 million and in FY 2023, CMF received $191 million. [81]

Part 4: Case Studies of Mixed Finance Rental Housing Development

Under the predominant mixed finance model in use today, there are nearly always funds or subsidies from a variety of programs and sources combined with private sector leveraged capital. While several HUD grant programs could potentially be used to provide upfront capital grants to finance a larger portion of the construction needs of a project, in practice in the current budget environment, these programs are nearly always used in conjunction with other subsidies. For example, the HOME program, which can provide significant grant funding on its own, is more often used as bridge or "filler" subsidy to make up gaps in other funding, particularly for HUD block grant recipients with limited annual HOME funding available for any given project.

Similarly, the Section 202 Capital Advance/PRAC program, and Section 811 program, as they were enacted in 1990 were also designed and initially intended to provide a large scale, upfront grant for construction costs, together with the ongoing PRAC rental assistance contracts for ongoing maintenance and operational needs. In the early years of the programs, this approach was used much more frequently. However, by the late 1990s and thereafter, the bulk of appropriations for both programs were required to maintain renewal of previously issued PRAC contracts, leaving less funding available for additional new construction. In more recent years, both programs have been more frequently used in a mixed finance approach where 202 or 811 provides the rental assistance with construction costs funded from other sources.

Following are examples of how recent housing development projects have combined funding sources to meet different goals. The overarching theme is the diversity and number of funding sources needed to

[81] Congressional Budget Office, 2022.

make the projects viable. More information on each of the examples, and other examples, can be found on the Case Studies page of HUDUser.gov.[82]

Supportive Housing for Formerly Homeless Veterans (Yakima, WA)
The city of Yakima, Washington, sought to address the needs of people, particularly veterans who are experiencing homelessness. The Yakima Housing Authority (YHA) decided in 2016 to convert the longstanding United States Marine Corps armory into supportive housing for formerly homeless veterans and their families. The $16.5 million project had nine different sources of financing, although 84% of the financing came from three sources: LIHTC equity ($9.3 million), a grant from the State Department of Commerce ($2.5 million), and the state Housing Trust Fund ($2.0 million). (See Exhibit 11 for detail on funding sources. See https://www.huduser.gov/portal/casestudies/study-022824.html for full case study.)

Affordable Senior Housing and Historic Preservation (Washington, DC)
Facing a growing need for affordable housing, Washington, D.C., used its Housing Production Trust Fund and other funding tools to encourage the development of new housing for low- and moderate-income households. "The Appleton" includes 88 affordable apartments that are age-restricted for seniors and are affordable to households earning up to 60 percent of the area median income (AMI) and reserves 14 units as permanent supportive housing for individuals who have previously experienced homelessness. The $29.9 million project had five sources of financing, with 81% coming from two sources: LIHTC equity ($14 million) and FHA loan proceeds ($10.1). (See Exhibit 11 for detail on funding sources. See https://www.huduser.gov/portal/casestudies/study-061324.html for full case study.)

Affordable Housing in Boston (Boston, MA)
Cote Village is a 76-unit, mixed-income apartment community in Boston's Mattapan neighborhood, including re-use of former commercial property. The development team acquired the site from the city for a nominal amount and began construction in 2019, less than 1 year after the new commuter rail station opened. All 76 units are reserved for low- to moderate-income households. The development cost approximately $48.5 million and had nine sources of funding, with about half the financing coming from LIHTC equity ($11.6 million) and another $11.4 million coming from a loan from MassHousing. (See Exhibit 11 for detail on funding sources. See https://www.huduser.gov/portal/casestudies/study-021624.html for full case study.)

Affordable Farmworker Housing (Ventura, CA)
In 2015, the University of California sold a 36-acre property in Ventura, California, that it had acquired as a charitable donation to support the Hansen Trust's programs and prepared a site plan for a predominately residential neighborhood. This portion of the site was developed with more than 100 single-family houses as well as 34 row houses and public green space. With strong advocacy from House Farm Workers, the university donated a 1.4-acre portion of the site to the Housing Authority of the City of San Buenaventura (Housing Authority) for farmworker housing. The Housing Authority provided additional financial assistance as well. The affordable housing development, known as Rancho Verde, opened in 2019 with 23 apartments for farmworkers with very low and extremely low incomes. The development cost approximately $14.0 million and had seven sources of funding, with more than three-quarters of the financing coming from LIHTC equity ($7.8 million) and a USDA Section 514 Farm Labor Housing Loan ($3 million). (See Exhibit 11 for detail on funding sources. See https://www.huduser.gov/portal/casestudies/study-091122.html for full case study.)

[82] The case studies on the HUDUSER website are prepared on behalf of HUD, but do not necessarily reflect the views or policies of the U.S. Department of Housing and Urban Development or the U.S. Government.

Exhibit 11. Funding Sources for Case Study Examples

	Amount (millions)	Percentage of Total
Supportive Housing for Formerly Homeless Veterans (Yakima, WA)		
Low-income housing tax credit equity	$9.3	56%
Washington state housing trust fund	$2.0	12%
Deferred developer fee	$0.1	1%
HOME Program (through city of Yakima)	$1.1	7%
Federal Home Loan Bank of Des Moines	$0.8	5%
Washington State Department of Commerce Community Facilities grant	$2.5	15%
Washington State Department of Commerce Dental Facility grant	$0.5	3%
Pacific Power Blue Sky grant	$0.2	1%
Federal solar energy tax credits	$0.1	0%
Total	**$16.5**	**100%**
Affordable Senior Housing and Historic Preservation (Washington DC)		
Federal Housing Administration loan proceeds	$10.1	34%
Subordinate debt from D.C. Dept. of Housing and Community Development	$4.3	14%
Deferred developer fee	$1.3	4%
Sponsor loan	$0.1	0%
Low-income housing tax credit equity	$14.0	47%
Total	**$29.9**	**100%**
Affordable Housing in Boston (Boston, MA)		
4% low-income housing tax credit equity (apartments)	$14.3	29%
9% low-income housing tax credit equity (townhouses)	$8.9	18%
MassHousing permanent loan	$11.4	24%
MassHousing workforce housing	$2.4	5%
City of Boston: HOME Investment Partnerships funds	$1.5	3%
City of Boston: other sources	$4.8	10%
MA Executive Office of Housing and Livable Communities: HOME funds	$0.8	2%
MA Executive Office of Housing and Livable Communities: other sources	$3.9	8%
Deferred developer fee	$0.4	1%
Total	**$48.6**	**100%**
Affordable Farmworker Housing (Ventura, CA)		
LIHTC Equity	$7.8	56%
USDA Farm Labor Housing Loan	$3.0	21%
PHA Development Loan	$0.8	6%
PHA Carryback Loan	$1.6	11%
Federal Home Loan Bank of San Francisco	$0.3	2%
Ventura County Farmworker Housing funds	$0.2	2%
Deferred developer fee	$0.2	2%
Total	**$14.0**	**100%**

Part 5: Affordability Requirements by Program

The supply production programs and tools reviewed have different affordability restrictions on rents and occupancy. Differing levels of affordability and housing unit characteristics directly impact how much the tenants living in the affordable housing developed or produced by the tools benefit from the federal subsidy.

Exhibit 12 provides general program features of several key production and rental assistance programs.

Exhibit 12. Comparison of Affordability Requirements of Current Rental Programs

Subsidy	Subsidy Description	Occupancy Restrictions	Length of Restrictions
Low-Income Housing Tax Credit (LIHTC)	Generally considered "shallow subsidy" for upfront construction, development and rehabilitation, with moderate affordability levels (e.g. 50% to 60% of AMI) but not for ongoing annual rent subsidies.	New tenants in LIHTC units cannot earn more than 80, 60, or 50 percent of area median income, depending on the owner's election when the property is placed in service.	30 years, although an opt-out provision allows owners to exit these restrictions after 15 years under certain circumstances. LIHTC can be combined with other programs for rental assistance (e.g., Section 8 HCVs or PBVs).
Tax Exemption for Rental Housing Private Activity Bonds	Shallow subsidy for upfront construction, development or rehabilitation.	Projects must set aside units restricted to tenants earning no more than 60 or 50 percent of the area median income, depending on the owner's election when the property is placed in service.	Generally, at least 15 years.
Federal Housing Administration Multifamily Mortgage Insurance	None (can support housing with other subsidies that impose restrictions).		
USDA Section 538 Loan Guarantee	Shallow subsidy for upfront construction, development or rehabilitation.	New tenants cannot earn more than 115 percent of the area median income.	Until insured financing is no longer active.
USDA Direct Loans and Grants	Varies by program, target population and project characteristics.	Generally, new tenants must have moderate or lower incomes.	Varies. Generally, until USDA financing is no longer active.
Public Housing	"Deep subsidy" with ongoing, annual funding and requires income-based rents.	Tenants cannot earn more than 80 percent of the area median income; at least 40 percent of households cannot earn more than 30 percent of the area median income.	Permanent as long as it remains public housing. Public housing authorities (PHAs) may remove public housing only under limited circumstances, such as RAD conversions.
Section 8 Project-Based Rental Assistance	"Deep subsidy" with ongoing, annual funding and requires income-based rents.	Tenants cannot earn more than 80 percent of the area median income; at least 40 percent of households cannot earn more than 30	As long as the contract between the owner and HUD is active. While most PBRA contracts are subject to annual contract renewals and sufficient appropriations, there are a

Subsidy	Subsidy Description	Occupancy Restrictions	Length of Restrictions
		percent of the area median income.	variety of potential long-term use agreements, including from Mark-to-Market mortgage restructuring or through RAD conversions.
USDA Section 521 Rental Assistance	"Deep subsidy" with ongoing, annual funding and requires income-based rents.	Tenants cannot earn more than 80 percent of the area median income.	As long as the contract between the owner and USDA is active, which also requires active USDA financing. Contracts expire and may be renewed annually.
Project-Based Vouchers	"Deep subsidy" with ongoing, annual funding and requires income-based rents.	Tenants cannot earn more than 80 percent of the area median income; at least 75 percent of households cannot earn more than 30 percent of the area median income.	As long as the contract between the owner and PHA is active. PBV assisted properties from RAD conversions also have perpetual use agreements.
Section 202 Capital Advance Grants with PRAC and Section 811 Supportive Housing	"Deep subsidy" with ongoing, annual funding and requires income-based rents.	Tenants cannot earn more than 50 percent of the area median income. Section 202 units only serve households with at least one person over 62, and Section 811 units only serve households with at least person with a disability.	As long as the contract between the owner and HUD is active.
HOME Program[83]	"Shallow subsidy" (for construction/development "Low" rent limits based on either 30% of a tenant's income or 30% of the HUD "very low income" limit (50% of AMI). "High" rent limits based on the lesser of the FMR or 30% of the monthly income of a family at 65% of AMI.	In projects with 5 or more units: 20% of units must be occupied by households at 50% of HUD AMI or less.	Can vary, up to 20-years. Often set concurrently with any LIHTC affordability period in the same project.
Other Block Grant Programs	Requirements vary. Generally considered "shallow subsidy" with funds limited to development or rehab (rather than ongoing rental assistance).		

[83] See HUD, "Compliance in HOME Rental Projects: A Guide for PJs," (2009). https://files.hudexchange.info/resources/documents/ComplianceinHOMERentalProjects_GuideforPJs.pdf and HUD Exchange, "HOME Rent Limits," https://www.hudexchange.info/programs/home/home-rent-limits/

Conclusion

Existing federal tools that directly support the development and preservation of affordable rental units for lower-income households take three broad approaches: 1) improving the availability of capital for construction and rehabilitation projects, 2) providing ongoing rental assistance or operating funding, and 3) distributing block grants to fund state and local programs. In most instances, multiple types of federal tools are used together in a development or preservation project.

Federal support for affordable housing construction and rehabilitation projects is most notably carried out through the LIHTC provision of the tax code, which is designed to subsidize either 30 percent or 70 percent of construction or rehabilitation costs of the affordable units in projects that receive credits. At its peak, over 100,000 affordable units per year received LIHTCs, more than a third of the total annual completed multifamily rental units in the United States. The majority of LIHTC projects also rely on additional federal affordable housing tools beyond the LIHTC, including tax-exempt bond financing, federal mortgage insurance, federal block grant money, and federal project-based rental assistance contracts.

Federal project-based rental assistance and ongoing operating funding cover about 2 million units of privately owned project-based housing and 900,000 units of public housing.[84] These subsidies ensure decent housing for the nation's poorest households and preserve the stock of affordable housing by supplying operating revenue and preventing changes to nonresidential or non-affordable uses. Federal block grants support affordable housing through an assortment of approaches at the discretion of state and local grantees. FY 2023 appropriations for block grant programs that grantees may use to develop or preserve affordable housing (among other uses) included over $10 billion.[85]

The federal tools discussed in this paper include the primary methods of ensuring affordable housing for low-income renters, but these do not represent all the federal government's housing programs. Programs and policies not discussed include those designed to lower the cost of homeownership and those not targeted specifically at low- and moderate-income households, despite the large amount of resources spent on them and their significant impacts on the housing market.

[84] As of December 2022. Units include Section 8 PBRA, Section 8 PBV, Section 202, Section 811 and RHS Section 521 assisted projects. These figures do not include tenant-based rental assistance (e.g., most Section 8 Housing Choice Vouchers).

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Appendix. U.S. Historical Housing Production Table 1968 - 2023

U.S. Housing Production: 1968 – 2023
Single-Family, Multifamily and Manufactured Housing

Year	Housing Starts, U.S. National Total SF + MF (not incl Manufactured Housing)	Housing Starts, 1-unit structures	Housing Starts, 2-unit structures	Housing Starts, 3-4 unit structures	Housing Starts, Multifamily 5 or more unit structures	Manufactured Housing (shipments)
1968	1,507.6	899.4	46.0	34.9	527.3	
1969	1,466.8	810.6	43.0	42.0	571.2	
1970	1,433.6	812.9	42.4	42.4	535.9	
1971	2,052.2	1,151.0	55.1	65.2	780.9	
1972	2,356.6	1,309.2	67.1	74.2	906.2	
1973	2,045.3	1,132.0	54.2	64.1	795.0	
1974	1,337.7	888.1	33.2	34.9	381.6	
1975	1,160.4	892.2	34.5	29.5	204.3	
1976	1,537.5	1,162.4	44.0	41.9	289.2	
1977	1,987.1	1,450.9	60.7	61.0	414.4	
1978	2,020.3	1,433.3	62.2	62.8	462.0	276
1979	1,745.1	1,194.1	56.1	65.9	429.0	277
1980	1,292.2	852.2	48.8	60.7	330.5	222
1981	1,084.2	705.4	38.2	52.9	287.7	241
1982	1,062.2	662.6	31.9	48.1	319.6	240
1983	1,703.0	1,067.6	41.8	71.7	522.0	296
1984	1,749.5	1,084.2	38.6	82.8	544.0	295
1985	1,741.8	1,072.4	37.0	56.4	576.1	284
1986	1,805.4	1,179.4	36.1	47.9	542.0	244
1987	1,620.5	1,146.4	27.8	37.5	408.7	233
1988	1,488.1	1,081.3	23.4	35.4	348.0	218
1989	1,376.1	1,003.3	19.9	35.3	317.6	198
1990	1,192.7	894.8	16.1	21.4	260.4	188
1991	1,013.9	840.4	15.5	20.1	137.9	171
1992	1,199.7	1,029.9	12.4	18.3	139.0	211
1993	1,287.6	1,125.7	11.1	18.3	132.6	254
1994	1,457.0	1,198.4	14.8	20.2	223.5	304
1995	1,354.1	1,076.2	14.3	19.4	244.1	340

U.S. Housing Production: 1968 – 2023 Single-Family, Multifamily and Manufactured Housing						
Year	**Housing Starts, U.S. National Total** **SF + MF (not incl Manufactured Housing)**	**Housing Starts, 1-unit structures**	**Housing Starts, 2-unit structures**	**Housing Starts, 3-4 unit structures**	**Housing Starts, Multifamily 5 or more unit structures**	**Manufactured Housing (shipments)**
1996	1,476.8	1,160.9	16.4	28.8	270.8	363
1997	1,474.0	1,133.7	18.1	26.4	295.8	354
1998	1,616.9	1,271.4	15.7	26.9	302.9	373
1999	1,640.9	1,302.4	15.0	16.9	306.6	348
2000	1,568.7	1,230.9	15.2	23.5	299.1	251
2001	1,602.7	1,273.3	17.2	19.3	292.8	193
2002	1,704.9	1,358.6	14.0	24.4	307.9	169
2003	1,847.7	1,499.0	15.7	17.8	315.2	131
2004	1,955.8	1,610.5	17.7	24.6	303.0	131
2005	2,068.3	1,715.8	15.3	25.8	311.4	147
2006	1,800.9	1,465.4	15.3	27.4	292.8	117
2007	1,355.0	1,046.0	12.1	19.6	277.3	96
2008	905.5	622.0	6.2	11.4	266.0	82
2009	554.0	445.1	6.3	5.2	97.3	50
2010	586.9	471.2	5.7	5.7	104.3	50
2011	608.8	430.6	5.5	5.4	167.3	52
2012	780.6	535.3	5.5	5.9	233.9	55
2013	924.9	617.6	7.3	6.4	293.7	60
2014	1,003.3	647.9	6.0	7.7	341.7	64
2015	1,111.8	714.5	6.2	5.3	385.8	71
2016	1,174.3	781.6	6.0	5.5	381.0	81
2017	1,203.0	848.9	5.1	6.3	342.7	93
2018	1,249.9	875.8	7.6	6.3	360.3	97
2019	1,290.0	887.7	6.5	6.9	388.9	95
2020	1379.6	990.5	6.2	6.6	376.8	94
2021	1601	1127.2	6	5.7	462.1	96
2022	1552.6	1005.2	7.6	8.8	531.0	112
2023	1413.1	944.5	5.4	8.0	455.5	89

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