LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

June 25, 2021

Ms. Virginia Sardone, Director
Office of Affordable Housing Programs, Room 7164
U.S. Department of Housing and Urban Development
451 Seventh Street SW
Washington, DC 20410-7000

Re: Housing Trust Fund – Request for Public Comments (FR-5246-N-04)

Dear Ms. Sardone:

The Local Initiatives Support Corporation (LISC) thanks the U.S. Department of Housing and Urban Development (HUD) for the opportunity to provide feedback on proposed changes to the Housing Trust Fund (HTF) program.

Established in 1979, LISC is a national nonprofit housing and community development organization dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government, and philanthropic support to provide local community development organizations with loans, grants, and equity investments; as well as technical and management assistance. Our organization has a nationwide footprint, with local offices in 36 cities. In 2020, LISC invested approximately $2 billion in these communities. Our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy communities.

General Comments

We believe that HUD has done a good job implementing the HTF program and are pleased that it has received additional resources over the past few years. These dollars fill critical funding gaps in deeply affordable rental housing developments across the country. Our comments are focused on ways in which HUD can provide more flexibility to grantees utilizing these resources so that they can better help to create and preserve affordable housing for the neediest households. We recommend that HUD loosen restrictions on utilizing HTF for operating assistance and align the programs' requirements with those of other federal housing programs, including the HOME Investment Partnership Program. This is necessary since while there has been an increase in federal affordable housing development resources in the last couple of years, it has not been coupled with additional operating assistance to pay for project costs serving the poorest families. Allowing this while aligning the program with like federal housing programs will allow the program to achieve greater impact and better meet its overall goals.

Specific Comments

Income Targeting
The current interim rule requires that 100 percent of HTF funds be used for extremely low-income (ELI) households or families with incomes at or below the poverty line (whichever is greater) in years when funds made available for HTF is less than $1 billion. The statute though requires that no less than 75 percent of HTF resources used for rental housing be committed to housing for ELI families and 100 percent of Trust funds used for homeownership be committed to ELI and VLI families (without any prioritization requirement).

LISC recommends that HUD allow the maximum flexibility as allowed by law with HTF income targeting standards. This is necessary due to the constraints on capital and operating resources necessary to produce housing for ELI households. Financing housing developments for the lowest income families requires ongoing operating assistance to bridge the gap for ELI families, which can't contribute as much toward rent, and the provider's housing costs. Many public housing authorities though in high cost markets have hit their cap on Project Based Vouchers and there's very limited project-based rental assistance sources available for projects serving ELI households. Allowing additional income targeting flexibility will help HTF grantees and developers achieve the program's overall goals.

Affordability Standards
The HTF interim rule requires a minimum 30 year affordability period, beginning after project completion. Grantees are permitted to impose longer periods. LISC is fully committed to long term affordability although believes the current interim rule is excessive based on the current operating assistance restrictions and is generally not in line with like federal affordable housing programs. For instance, the current regulation's affordability period is twice what's required under the HOME Investment Partnership (HOME) Program for homeownership and 10 years more than HOME financed rental housing new construction, even though HTF imposes deeper income targeting requirements.

LISC recommends that HUD align the HTF's affordability provisions with the HOME Investment Partnership program's requirements.

Operating Cost Assistance
Housing Trust Fund resources can be utilized for operating cost assistance and reserves, although the interim rule only allows one third of each annual grant to be utilized for such activities. In addition, operating cost support is only available for rental housing acquired, rehabilitated, reconstructed, or newly constructed with HTF funding.

Housing Trust Fund dollars are highly targeted to ELI and VLI households and financing affordable housing for these populations requires ongoing operating cost assistance. LISC recommends that HUD remove the restriction on the amount of HTF which can be utilized for operating assistance since the law doesn't require it and it should be left to the grantee to decide how best to utilize these resources for ELI and VLI affordable housing developments in their state. There are very few sources of ongoing operating assistance for affordable housing targeting the nation's lowest income families and relaxing this requirement will allow states more flexibility to meet needs.

LISC also recommends that HUD remove the requirement that HTF funds utilized for operating assistance only be allowed for projects receiving HTF resources for development costs. The law does not impose this requirement and HTF should be allowed as operating resources as long as it meets the overall income targeting and other requirements. Removing this barrier will allow grantees to better leverage HTF *resources with other affordable housing capital funding, such as the Low-Income Housing Tax Credit program.*

Lastly, LISC recommends that HUD update the HTF operating cost assistance definition so broadband is explicitly included as an eligible utility cost. This is necessary since residents of affordable housing are nearly twice as likely to lack high-speed internet connections as the general population, but providing broadband connection for all units in the building can be a cost-effective way for a property owner to ensure that residents are connected. There's precedent for this since HUD's Office of Public Housing recently clarified that public housing funds can be used to support access to broadband internet.

<u>Repayment</u>
The interim rule requires that HTF resources be repaid for projects that don't meet the program's affordability requirements. LISC supports such rules since affordable housing resources are scarce and users of public subsidy should ensure that projects meet stated affordability guidelines. The interim regulation though goes beyond what's required in like federal affordable housing programs by requiring grantees to repay the full amount of HTF resources invested, no matter how long the project was in compliance, versus allowing a prorated repayment requirement.

LISC recommends that HUD allow a prorated repayment requirement when projects fall out of compliance. This would align HTF with the Low-Income Housing Tax Credit program, where Housing Credits can be recaptured on a prorated basis during the first 15 years. LISC also supports suspending repayment requirements for affordability compliance problems if a HTF funded property receiving federal project-based rental assistance loses such funding due to a lapse in appropriations.

<u>Subgrantee</u>
HUD's HTF interim rule defines a Subgrantee as "a unit of general local government or State agency selected by the grantee to administer all or a portion of its HTF program. A local government subgrantee must have an approved consolidated plan submitted in accordance with 24 CFR part 91. The selection of a subgrantee by a grantee is not subject to the procurement procedures and requirements."

LISC recommends that HUD allow a broader Subgrantee definition, which allows HTF resources to be managed by nonprofit housing organizations, in addition to state and local government agencies that have an approved Consolidated Plan. Many nonprofit housing organizations have the capacity to administer such funding on behalf of the grantee and could help grantees deploy these resources.

We thank HUD for the opportunity to offer suggestions and please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC Senior Director of Policy, if you have any questions.

Sincerely,

Matt d. Jos

Matt Josephs
Senior Vice President for Policy