

HOUSING TRUST FUND

OVERVIEW

Whether individuals or families own or rent their homes, having a safe, affordable place to live provides essential physical and financial security. Yet all too often, affordability is out of reach. More than 45% of renters and 37% of homeowners in the United States are “cost-burdened,” meaning they spend more than one-third of their income on housing costs.

Homeownership is the single largest source of equity for American households. Because mortgage payments can be substituted for rent, even households with very modest disposable incomes can, over time, build assets through homeownership. However, high costs and elevated credit requirements in recent years have made it more difficult for those with modest incomes to afford a home. For those who have managed to purchase a home, the recession and the collapse of the housing market have made it difficult for many homeowners to retain this important asset.

For those who are not ready or able to buy a home, access to affordable, high-quality housing is essential. Many renters of limited means are forced to accept substandard or unsafe living conditions in order to find housing that they can afford.

Housing trust funds are one way that states can help make housing and homeownership affordable for low- and moderate-income individuals and families. For more than 20 years, housing trust funds have used dedicated public monies for a variety of affordable housing solutions, including preserving affordable rental housing, addressing homelessness, construction and rehabilitation of affordable housing, helping families become first-time homeowners, emergency repair and foreclosure prevention. Unlike other kinds of trust funds, housing trust funds do not operate using the interest earned on their corpus. Instead, they are composed of dedicated, ongoing streams of public revenue.

WHAT STATES CAN DO

States, along with cities and counties, can establish housing trust funds. Taxes and fees are frequently used as funding sources. States can also explore other funding options, including rainy day funds, unclaimed property funds, percentages of bond issuances and interest from escrow accounts, among others. In addition, states can create legislation that encourages and/or enables cities and counties to advance their own housing trust funds.

ELEMENTS OF A STRONG POLICY

Based on input from the Housing Trust Fund Project at the Center for Community Change,¹ CFED considers a state's housing trust fund policy strong if it meets the following criteria:

1. **Is there funding from a dedicated source?**² Divorcing the trust fund from the annual appropriations process creates a more reliable source of public monies dedicated to affordable housing. The real estate transfer tax³ and the document recording fee⁴ are both good sources for housing trust funds because they generate significant revenues, are closely linked to the housing and real estate industries and are connected to growth indicators. Dedicated funds can also come from designating the growth in revenues from designated tax streams for the housing trust fund.⁵ Some state housing trust funds have "graduated" from appropriated funds to dedicated streams, or from a single dedicated stream to multiple streams.⁶
2. **Is funding adequate to make a meaningful impact?** While even the best-funded trust funds do not have enough resources to completely meet their state's affordable housing needs, some states are setting the standard for the field by providing at least \$100 per low-income consumer.⁷
3. **Are funding levels stable over time?** Because affordable housing developers and state agencies need to be able to plan for future projects without fear that funding will disappear in the next fiscal year, it is important that state funding for housing trust funds come from a stable and protected source.⁸
4. **Is stewardship of the trust fund strong?** It is important for the trust fund to have a steward within state government and for the stewarding agency to be committed to high performance and transparency. Housing trust funds should have an independent oversight board or committee whose specific purpose is accountability for the fund. In addition, the administering agency should produce an annual public report on the activities of the trust fund, including information on expenditures, number of units produced and number of households served.

WHAT STATES HAVE DONE

Some 600 housing trust funds exist in cities, counties and 41 states.⁹ Several dozen more housing trust fund campaigns are under way. A number of states have also taken incremental steps to strengthen their trust funds, e.g., by identifying a dedicated revenue source after many years of having a housing trust fund on the books. In their strongest and best forms, housing trust funds provide new and additional revenues to more traditional affordable housing funding sources.

For more information on this policy measure, Housing Trust Fund, and more, go to <http://scorecard.cfed.org>.

In the 2009-2010 Assets & Opportunity Scorecard, the 50 states and the District of Columbia were rated on their existing housing trust fund policies. The ratings were based on all four criteria above.

¹ CFED acknowledges the expert assistance of Mary Brooks, director of the Center for Community Change's Housing Trust Fund Project. For more information, visit www.communitychange.org/our-projects/htf.

² A true housing trust fund, by definition, includes a dedicated revenue source. However, in some states, housing trust funds have been established without a dedicated revenue source.

³ Every time ownership of a piece of real estate changes, a tax is levied by the state and/or locality, generally referred to as a real estate transfer tax or a documentary stamp tax.

⁴ In order for transactions to be legal, the property title and other documents must be recorded at the county courthouse. This document recording fee is charged for each page recorded. While recording fees are also charged for other documents (such as wills), typically only those related to real estate transactions are allocated to housing trust funds.

⁵ Brooks, M. (1999, July). *A Workbook for Creating a Housing Trust Fund*. Retrieved August 10, 2009 from www.communitychange.org/our-projects/htf/other-media/HousingTrustWorkbook.pdf, pp.49-51.

⁶ Some states' constitutions may prohibit or limit the use of specific dedicated funds. Researching these limitations will help direct a housing trust fund effort to viable revenue sources and identify the steps necessary for dedicating revenue sources to a housing trust fund.

⁷ In the 2009-2010 Assets & Opportunity Scorecard, the number of low-income consumers was estimated using data from the 2008 Current Population Survey. CFED aggregated the number of low-income Primary Families, Unrelated Subfamilies and Unrelated Individuals to estimate the number of distinct low-income individuals or families that would be seeking housing as a single unit. For the purposes of this estimate, we defined "low-income" as having an income that was less than or equal to 200% of the federal poverty guidelines.

⁸ In the 2009-2010 Assets & Opportunity Scorecard, funding trends were determined by reviewing funding levels for the last three fiscal years. If funding remained the same, increased over time, or if an average of all three years was within 10% of the peak year, funding was considered to be stable.

⁹ Personal communication, Mary Brooks, July 15, 2009.