Activation of housing finance agency reserves overview

Some states and local housing finance agencies (HFA) have built up reserves that can be tapped to provide subsidies for the development or preservation of affordable housing.

HFAs generate income through a variety of activities; this income is used to fund program operations as well as to build reserves that strengthen the HFA’s financial position and improve its bond rating. In the course of their operations, some HFAs earn revenue sufficient to achieve these goals and build up reserves that exceed what is needed to maintain a strong enough bond rating to be able to borrow at favorable rates. Even if designated as a reserve, these additional funds and future net income may be vulnerable to being tapped by the state or a city to fill budget gaps unrelated to housing. To meet important affordable housing needs and to avoid having these funds diverted to non-housing uses, some HFAs decide that, once adequate reserve levels have been established, any additional funds are to be used to directly fund state and local affordable housing activities.