Federal funding for affordable housing

While cities, towns, and counties have an important role to play in the funding process for affordable housing, most of the financial support for affordable programs comes from the federal government. This page provides an overview of major federal funding streams for affordable housing, including:

- Low Income Housing Tax Credits
- Tenant-based rental assistance programs
- Project-based rental assistance programs
- Public housing operating fund and capital fund
- Choice Neighborhoods
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Rural Housing Service programs

Aside from the Low Income Housing Tax Credit program, which is administered by state and local housing finance agencies, all of these programs are administered by the U.S. Department of Housing and Urban Development (HUD). HUD also funds a variety of smaller programs, many of which focus on specific activities or goals such as providing support for lead abatement and healthy homes and promoting fair housing and economic self-sufficiency among residents of subsidized housing. A number of other federal agencies also fund affordable housing activities. Most notably, the U.S. Department of Agriculture administers programs that fund single-family and multifamily housing in rural cities, towns, and counties through the Rural Housing Service. The U.S. Department of Health and Human Services also provides funding, sometimes in partnership with HUD, to support housing and services to people experiencing homelessness.

Learn how local resources can be used to augment federal funding for affordable housing.

Low Income Housing Tax Credits

The largest source of federal support for the creation and preservation of dedicated affordable housing is administered by state and local housing finance agencies based on regulations issued by the U.S. Treasury Department. The Low Income Housing Tax Credit (LIHTC) program is an indirect subsidy program that provides an incentive for
private companies to invest in affordable housing through a dollar-for-dollar reduction in federal income tax liability. Investors receive the credit over a 10-year period, and projects financed with LIHTC equity must remain affordable for a period of at least 30 years (although some states have adopted longer affordability requirements). Since the program was created in 1986, nearly 3 million LIHTC units have been placed in service in more than 45,000 projects.

There are two types of LIHTC tax credits, 9 percent credits and 4 percent credits, both of which are allocated by state and local housing finance agencies. The 9 percent LIHTC is typically used for new construction and larger renovation projects, and is awarded on a competitive basis in accordance with preferences and priorities laid out in the housing finance agency’s Qualified Allocation Plan. Each state’s allocation of 9 percent LIHTCs is determined annually using a population-based formula. In 2017, states received the greater of $2.71 million or $2.35 per resident in LIHTC allocation authority. In high-cost areas, the 4 percent LIHTC is used primarily for preservation and acquisition-rehab projects (while in other areas, it is also used for new construction) and is automatically awarded to affordable housing projects that are supported with private-activity bonds. In 2017, state allocations for were the greater of $305.3 million or $100 per resident.

To comply with the requirements of the LIHTC program (and avoid recapture of the tax credits), during the 30-year compliance period, projects must set aside at least 20 percent of units for tenants earning less than 50 percent of the area median income or 40 percent of units for tenants earning less than 60 percent of the area median income. As a practical matter, project sponsors often set aside a much larger share of units as affordable to increase the competitiveness of their applications and the amount of tax credit equity they can raise, with many projects complying with the LIHTC requirements in 100 percent of the units. While generally more affordable than market-rate units, rent levels at LIHTC developments are typically too high to be affordable to extremely low-income households without additional subsidy. Cities, towns, and counties often attach project-based vouchers or other federal or state rental assistance to some or all units in a LIHTC development to reach individuals and families who require deeper affordability.

**Tenant-based rental assistance programs**

Federal tenant-based rental assistance is provided primarily through HUD’s Housing Choice Voucher program, which assists over 5 million people in more than 2 million families. The program is implemented by local and state public housing agencies. Voucher holders receive a subsidy that they can use at any privately owned rental unit that meets program guidelines and has an owner willing to participate in the program.
Because the assistance moves with the household, rather than remaining attached to a particular unit, tenant-based rental assistance can be a particularly effective tool for increasing low-income families’ access to low-poverty, resource-rich neighborhoods. Housing choice vouchers are also very flexible. Public housing agencies have the flexibility to “project-base” a portion of their vouchers, attaching them to specific units to provide ongoing affordability, and to allow vouchers to be used for home purchase.

All voucher holders must have incomes, at the time of enrollment, that do not exceed 80 percent of the area median income. At least 75 percent of the households newly enrolled in the program each year must be extremely low-income households with incomes that do not exceed the higher of 30 percent of the area median income or the federal poverty level. Participating households are required to contribute 30 percent of income for rent and utilities, and the housing agency pays the balance (up to a locally defined maximum known as the voucher payment standard) directly to the landlord. Agencies may also set minimum rents. Demand for vouchers far outstrips supply, and most public housing agencies either maintain long waiting lists for the program or use a lottery to determine which households may join the waiting list.

Subject to appropriations and budget availability, HUD provides annual funding to public housing agencies to renew housing choice vouchers currently in use. Due to changes in funding policies, sequestration, and continuing resolutions that freeze program funding, however, available funds have at times been inadequate to renew all existing vouchers. Three industry groups, CLPHA, NAHRO, and PHADA, estimate the cost of fully renewing all vouchers in FY 2018 at $19.84 billion.

Other tenant-based rental assistance programs use housing choice vouchers to serve populations with specific needs, and are much smaller than the mainstream voucher program. The HUD-Veterans Affairs Supportive Housing (HUD-VASH) program, for example, is jointly administered by HUD and the Department of Veterans Affairs (VA), and combines housing choice voucher rental assistance with supportive services delivered by the VA to provide stable housing for veterans experiencing homelessness. Since the program’s creation in 2008, more than 85,000 HUD-VASH vouchers have been awarded. Another specialized tenant-based rental assistance program – the Family Unification Program (FUP) – provides housing choice vouchers to families for whom the voucher will help prevent or end a child’s placement in out-of-home care due to housing instability or inadequate conditions. FUP is administered by public housing agencies in partnership with public Child Welfare Agencies, which provide supportive services to participating children and families. The program currently assists nearly 30,000 households.
Project-based rental assistance programs

Federal project-based rental assistance is provided primarily through HUD’s Section 8 Project-Based Rental Assistance program, which assists more than 2 million people in approximately 1.2 million households. The program is implemented by private owners of multifamily rental housing through Housing Assistance Payment contracts. Because the assistance stays attached to the unit, project-based rental assistance can be a particularly effective tool for creating and preserving affordable housing in high-cost or gentrifying areas. In FY 2016, HUD funding for project-based rental assistance programs was $10.6 billion.

To be eligible for Section 8 project-based rental assistance, households must have incomes, at the time of enrollment, that do not exceed 80 percent of the area median income. At least 40 percent of assisted units must be reserved for extremely low-income households with incomes that do not exceed the higher of 30 percent of the area median income or the federal poverty line. Participating households contribute 30 percent of income or a minimum of up to $25 each month (whichever is greater) for rent and utilities, and the housing agency pays the balance due directly to the landlord. In 2016, two-thirds of Section 8 Project-Based Rental Assistance units were occupied by households headed by a person who was elderly or had a disability.

HUD has also provided project-based rental assistance to private owners of multifamily rentals through several smaller programs, including the Rent Supplement Program, the Rental Assistance Payments program, and the Section 8 Moderate Rehabilitation program. Many of these programs have been phased out or consolidated over the years, and while no new units are being created, HUD continues to provide rental assistance for the remaining projects under existing contracts even as it seeks to convert these properties to Section 8 through the Rental Assistance Demonstration.

Preserving units with project-based rental assistance as affordable when their project-based assistance contracts expire is a major challenge for many cities, towns, and counties, particularly for projects located in gentrifying neighborhoods. While existing residents typically receive tenant-based assistance that allows them to stay in their homes, long-term affordability in the development is lost when income-eligibility restrictions are lifted and the units are no longer available to serve other low-income families. Some cities, towns, and counties have created preservation inventories to enable early identification and intervention to preserve units at risk of loss.

Public housing operating fund and capital fund

Public housing is affordable housing that is owned and operated by local public housing agencies. More than 1 million households and 2.6 million residents live in
public housing, most of whom have extremely low incomes. Nearly 40 percent of households in public housing are families with children. All residents must have incomes that do not exceed 80 percent of the area median income at the time of admission, and at least 40 percent of new public housing residents each year must be extremely low-income, with incomes that do not exceed the higher of 30 percent of the area median income or the federal poverty level. Residents generally make contributions toward rent and utilities equal to 30 percent of their income, their welfare shelter allowance, or a minimum rent established by the public housing agency of up to $50 (whichever is greatest). Alternatively, residents may choose to pay a flat rent that does not vary with income.

Public housing agencies receive funding for public housing developments in two streams: the capital fund and the operating fund. The public housing capital fund is intended to address properties’ capital needs, and eligible activities include non-routine maintenance, measures to increase the safety and security of residents, development and reconfiguration of public housing units, modernization and physical work on public housing properties, and site improvements and demolition costs associated with modernization or development projects. The operating fund helps to make up the difference between residents’ rent payments and the cost of day-to-day operations, including routine and preventative maintenance, staff salaries, and insurance.

Public housing funds are distributed by HUD to public housing agencies on a formula basis and in amounts that depend on Congressional appropriations. For many years, the amount of funding made available through the operating fund has fallen short of the amount specified in the public housing operating formula, and, as a result, agencies receive a prorated amount. The amounts appropriate for the public housing capital fund have likewise been inadequate to keep pace with the cost of addressing capital needs in public housing developments—a deficit that threatens the ongoing viability of the public housing stock and was estimated in 2010 at $26 billion with a growing annual accrual of $3.4 billion. In FY 2012, Congress authorized the Rental Assistance Demonstration (RAD) program to help address these shortfalls. RAD authorizes public housing agencies to convert 225,000 units that are subsidized through the public housing program to Section 8 assistance, either through project-based rental assistance or project-based vouchers.

(What is the difference between these two forms of project-based Section 8 assistance?)

**Choice Neighborhoods**

Choice Neighborhoods is a competitive grant program that supports the
transformation of housing and neighborhoods in targeted areas. HUD created Choice Neighborhoods in FY 2010 as a successor to the HOPE VI program. Choice Neighborhoods, 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 must be implemented in conjunction with a comprehensive neighborhood revitalization plan, called a Transformation Plan. The Transformation Plan describes how the grantee will address community problems, increase opportunity, and improve social outcomes for residents of the redeveloped housing and surrounding neighborhood in a variety of areas, including education, employment, and health. (Smaller planning grants are available to support preparation of a Transformation Plan.) Program funds may be used to provide supportive services and make improvements to the surrounding community.

Eligible grantees include public housing agencies, local governments, and tribal entities; private owners of HUD-assisted properties and private developers (for-profit or non-profit) may apply in partnership with any of these entities. Redeveloped units must be replaced on a one-for-one basis, either on-site, in the target neighborhood, or up to 25 miles away if the new neighborhood has a low poverty level, low concentration of minorities, and satisfies requirements for amenities. Under certain conditions, project sponsors may also replace up to half of the units with housing choice vouchers. Residents who are relocated during the redevelopment have a right to return to the newly-redeveloped property, and program sponsors must track residents until the new housing is fully occupied. Choice Neighborhoods also includes a requirement for ongoing resident involvement from the planning stages through implementation.

**HOME Investment Partnerships Program (HOME)**
The HOME program is a block grant provided by the federal government directly to large cities, towns, or counties and to states (for distribution to areas that do not receive direct funding). HOME funds can be used for a variety of housing-related activities, including home purchase and rehabilitation assistance, site acquisition or improvement for the development of affordable rental or owner-occupied housing, and tenant-based rental assistance. 60 percent of funds are distributed by formula to cities, towns, counties, and consortia of local governments, and the balance goes to states, which can fund projects directly or issue sub-grants to local jurisdictions that are not eligible for their own direct allocation. HUD’s allocation formula is based on a range of factors including the inadequacy of the local housing supply, the incidence of poverty, and fiscal distress, among others.
In FY 2016, HOME program funding was $950 million. The program is targeted on low-income households, and program rules require that 100 percent of HOME funds be used to assist households at or below 80 percent of the median family income (additional, lower income requirements apply for certain eligible activities). Housing that is owned, sponsored, or developed by a private nonprofit Community Housing Development Organization must account for at least 15 percent of a participating jurisdiction’s HOME allocation. All HOME funds used for affordable housing must be matched by state or local resources or private contributions in an amount equal to at least 25 cents for every dollar of HOME funds. States receive a formula allocations or minimum grant of $3 million (whichever is greater), while local jurisdictions or consortia must qualify for a formula allocation of at least $500,000 to receive direct HOME program funding.

**Community Development Block Grants (CDBG)**

CDBG funds can be used for a variety of eligible activities related to housing and community development. Among other eligible CDBG activities are those that support affordable rental housing and homeownership, including rehabilitation and emergency repairs to owner-occupied and rental homes, downpayment and closing cost assistance, acquisition and construction of rental housing, and certain housing-related services, such as housing counseling. 70 percent of funds are distributed by formula to “entitlement jurisdictions” (cities with populations over 50,000 and counties with populations over 200,000), and the balance goes to states for allocation to less populous towns and counties. HUD uses one of two formulas to determine each entitlement jurisdiction’s allocation, both of which are weighted to account for the share of the population in poverty.

In FY 2016, the CDBG program provided $3 billion in grant funding to entitlement jurisdictions and state sub-grantees. Program regulations require at least 70 percent of CDBG funds to be used by local jurisdictions for activities that benefit individuals with incomes below 80 percent of the area median income; the remainder can be used for emergency response or to prevent or eliminate slums and blight. In recent years, Congress has also made special CDBG appropriations to aid cities, towns, and counties responding to disasters.

**National Housing Trust Fund**

The National Housing Trust Fund is a HUD-administered block grant program intended to serve very low-income and extremely low-income households, including families experiencing homelessness. Funds are allocated to a designated state agency (typically the housing finance authority or state department of housing) using a formula that accounts for housing needs among these eligible income groups, and
awards are intended primarily for use in supporting the creation, rehabilitation, preservation, or operation of rental housing for the lowest-income households. The state agencies then determine which projects to fund. All assisted units must remain affordable for at least 30 years.

The Housing Trust Fund differs from most other HUD programs in that funding is provided on a dedicated basis, rather than through Congressional appropriations. Specifically, the Housing Trust Fund is funded with a portion of a 4.2 basis point assessment on Fannie Mae and Freddie Mac’s new business (the Housing Trust Fund receives 65 percent of the assessment and 35 percent goes to the Capital Magnet Fund). The first round of awards totaling $174 million was made in 2016; the 2017 allocation was $219 million.

**Capital Magnet Fund**

The Capital Magnet Fund is a competitive grant program administered by the Treasury Department. Community Development Financial Institutions (CDFIs) and qualified nonprofit housing organizations are eligible to compete for program funds, which may be used to finance housing for low- and moderate-income households (at least 70 percent of a grantee’s award) and for related economic development and community service facilities. Every dollar from the Capital Magnet Fund must leverage at least $10 in private and other public funds. Eligible uses include the creation of revolving loan funds, risk-sharing loans, loan guarantees, and other activities that can be used to attract private capital to economically distressed and underserved cities, towns, and counties.

The Capital Magnet Fund is funded with a portion of a 4.2 basis point assessment on Fannie Mae and Freddie Mac’s new business, although it may also be supported with Congressional appropriations (the Capital Magnet Fund receives 35 percent of the assessment on the Enterprises and 65 percent goes to the national Housing Trust Fund). In FY 2016, $91.5 million was awarded to 32 organizations, following a competition that saw 230 applicants request more than $1 billion.

**Rural Housing Service programs**

The USDA’s Rural Housing Service offers single-family and multifamily housing programs to support a variety of activities in rural areas. Single-family programs help low- and moderate-income residents of rural cities, towns, and counties purchase homes and make home repairs, while multifamily programs provide support for acquisition-rehab and new construction, provision of related facilities and infrastructure, and project-based rental assistance. The high-cost cities, towns, and counties that are the primary audience for LocalHousingSolutions.org will generally
not be eligible for Rural Housing Service programs and so these programs are not discussed here in greater detail. More information is available on the USDA’s Rural Housing Service website.

In developing their local housing strategies, cities, towns, and counties will need to determine how best to coordinate all of the different federally funded housing activities, as well as any initiatives funded at the state or local level. With many of these programs being implemented by different agencies, this can be a challenging task, but it is nonetheless an important one for ensuring the jurisdictions’ housing needs are addressed in a comprehensive and strategic manner. Cities, towns, and counties will also want to consider federal funding availability and requirements to identify gaps that could benefit from locally funded initiatives.

Click here for a discussion of how a review of available federal resources can be helpful in determining the income levels to target through locally funded housing programs.

- These conditions include: vacancy rates for units affordable to low-income households above 7.3 percent in 2000 and 8.7 percent in 2005-2009; at least half of vouchers currently in use in neighborhoods with poverty rates below 20 percent; and at least 80 percent of voucher holders are able to lease units within 120 days.