



City of Austin

MEMO

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To: Mayor & Council

From: Margaret Shaw, Director
Neighborhood Housing & Community Development

Date: November 26, 2008

Subject: Housing and Recovery Act of 2008 (HERA)

The purpose of the memo is to update you on federal legislation and its impact on affordable housing initiatives in Austin. President Bush signed into law the Housing and Economic Recovery Act of 2008 (HERA) on July 31, 2008. The 700-page legislation is designed to support communities currently suffering from a high home foreclosure rates, increase the country's affordable housing stock and attempt to correct many of the systems and policies that contributed to the current crisis.

While Austin has not seen the devastating foreclosure rates other regions of the country are experiencing, our foreclosure numbers are on the rise. Additionally, recent housing and economic studies indicate the need for affordable housing in Austin will only continue to grow. The following information outlines some of the areas in which Austin will specifically benefit from HERA.

Funding Available in Austin

HERA establishes the Neighborhood Stabilization Program (NSP) and provides funding of approximately \$3.92 billion nationally. These funds are directed to state and local governments for the purchase and rehabilitation of foreclosed and vacant properties. The funds originate with the U.S. Department of Housing and Urban Affairs (HUD) – of approximately \$178 million allocated to Texas, \$75 million has been directly allocated to 14 cities and counties (of which Austin is not included); the balance of approximately \$102 million will be distributed through the Texas Department of Housing and Community Affairs (TDHCA) for all other Texas communities to access for the purposes of:

- Demolishing blighted structures
- Purchasing abandoned/foreclosed homes with the intention to sell or rent the properties
- Providing financing such as mortgage financing for households earning 50% of less of area median family income or down payment and closing costs assistance for households earning up to 120% of the area median family income

- Acquiring, demolishing and/or rehabilitating foreclosed and blighted properties and holding properties for up to 10 years in land banks and
- Redeveloping demolished or vacant properties

TDHCA has identified 25 counties, including Travis and Williamson, which will receive direct allocations of these funds based on need. Travis County's allocation is \$2,017,952 and \$1,066,554 will be available in Williamson County. The City of Austin will be allowed to apply for funds from both of these county-wide awards. Additionally, \$10,000,000 is being earmarked for land banks/trusts. The Texas State Affordable Housing Corporation will coordinate these local and statewide land banking activities. Travis and Williamson Counties, including the City of Austin, are also eligible to apply for these funds for use in conjunction with or coincidental to the other direct allocation of funds.

Staff expects to seek comments on applications for the use of these funds from the Community Development Commission at their January meeting. TDHCA must submit its plan to HUD by December 1, 2008. We support their plan and look forward to applying for these funds later in the winter.

Housing Finance

- Requires all mortgage lenders to be licensed through a national system.
- Significantly increases oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Bank system.
- Provides \$300 billion in Federal Housing Administration (FHA) loan guarantees for refinancing troubled mortgages.

Foreclosure Prevention

- Increases the FHA loan limit for a single-family home to 115% of the area median single-family home price.
- Prohibits seller funded (or any other entity that will be reimbursed) down payment assistance. This has impacted AHFC's Down Payment Assistance (DPA) program. AHFC was forced to halt its DPA program in August for clients seeking FHA mortgage loans. The Mayor, in an October 1 letter, requested help from the FHA Commissioner in resolving this issue. Staff continues to work toward a resolution so clients may close on their home purchases before the holidays.

Housing Tax Provisions

- Increases the state ceiling of Housing Tax Credits (HTC) by \$0.20 per capita for 2008 and 2009 equating to approximately \$9 million in additional credits. The 2009 HTC allocation cycle will begin in December 2008 with allocations being made in July 2009. AHFC is working directly with affordable housing developers to ensure competitive applications in Austin for 2009. On October 22, 2008, AHFC conducted a Developer Workshop to educate the development community on AHFC's gap financing programs, development incentives and other programs that can assist HTC applications.
- Increases the state volume cap of multifamily housing bonds. AHFC can apply for this funding without identifying a specific apartment community in the application.

AHFC will then have two years to allocate that funding. On November 6, 2008, the AHFC Board authorized submission of an application for \$60 million in this emergency volume cap. Funding is subject to availability based on applications submitted by all issuers statewide.

- Allows state allocating agencies to prioritize types of HTC applications that will receive the 30 percent increases in credits traditionally reserved for Qualified Census Tracts. This will have a significant impact on Austin applications. TDHCA has identified Transit Oriented Developments (TOD) as one area that will receive the 30 percent increase. High construction and land costs have traditionally made these types of developments difficult to finance. A 30 percent increase in the credit amount will significantly increase the chances of an HTC application in an Austin TOD. Qualified Census Tracts (QCT) will also remain eligible for the 30 percent increase in tax credits.
- Repeals the Alternative Minimum Tax (AMT) limitations for HTCs and tax-exempt bonds. Many tax credit syndicators left the market in 2007 and 2008 because of the AMT. While the unsteady market remains the primary obstacle to the sale of these credits and bonds, the repeal of the AMT will begin to pave the way for syndicators to re-enter the market.

HERA specifically includes benchmarks designed to ensure swift results. Austin will be most affected by an allocation of Neighborhood Stabilization Program funds and improvements to the HTC and tax-exempt bond financing programs.

Please contact me at 974-3184 if I can provide additional information.