FACT SHEET: Biden-Harris Administration Announces Immediate Steps to Increase Affordable Housing Supply

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Immediate Steps Supplement the Biden-Harris Administration's Push for Historic, Long-Term Investments in New Housing as Part of the Build Back Better Agenda

Since President Biden took office, the economy has created more than 4 million jobs, with an average of more than 830,000 new jobs over the last three months. In the first half of the year, the economy grew at the fastest rate seen in nearly 40 years.

This economic progress has enabled millions of American homeowners and renters to get back on track. In the second quarter of 2021, the mortgage delinquency rate on single-family mortgages fell to below 5.5 percent – from a pandemic high of more than 8 percent. The percentage of renter households behind on rent has also fallen from 19.4 percent to 15.4 since the beginning of this year.

While the Administration continues to do everything in its power to stabilize families who are at risk of losing their homes because of the economic impact of the pandemic, we still have more work to do. President Biden and Vice President Harris believe we need to do more than build back to the way things were before. We need to build back better.

While Congress works toward passing the Build Back Better Agenda, which includes an historic investment in building new homes and making existing housing safer, healthier, and more energy efficient, the President knows that we can't wait to take action. The large and long-standing gap between the supply and demand of affordable homes for both renters and homeowners makes it harder for families to buy their first home and drives up the cost of rent. Higher housing costs also crowd out other investments families can and should make to improve their lives, such as investments in education.

As supply constraints have intensified, large investors have stepped up their real estate purchases, including of single-family homes in urban and suburban areas. One out of every six homes purchased in the second quarter of 2021 was acquired by investors, and reports indicate that in some markets, that number is one in four. Within investor purchases, typically more than 35 percent of purchases are made by investors that own more than ten properties. Large investor purchases of single-family homes and conversion into rental properties speeds the transition of neighborhoods from homeownership to rental and drives up home prices for lower cost homes, making it harder for aspiring first-time and first-generation home buyers, among others, to buy a home. At the same, these purchases are unlikely to meaningfully boost supply in the lower-cost portions of the rental market, as investors charge more for rent to recoup higher purchase costs.

President Biden is committed to using every tool available in government to produce more affordable housing supply as quickly as possible, and to make supply available to families in need of affordable, quality housing – rather than to large investors. That's why today the Administration is announcing a number of steps that will create, preserve, and sell to homeowners and non-profits nearly 100,000 additional affordable homes for homeowners and renters over the next three years, with an emphasis on the lower and middle segments of the market.

Specifically, federal agencies will:

- Boost the supply of quality, affordable rental units by relaunching the partnership between the Department of Treasury's (Treasury) Federal Financing Bank and the Department of Housing and Urban Development (HUD) Risk Sharing Program in order to enable eligible state housing finance agencies (HFAs) to provide low-cost capital for affordable housing development; raising Fannie Mae's and Freddie

Mac's (the Enterprises) equity cap for the Low-Income Housing Tax Credit (LIHTC), the largest federal program for the construction and rehabilitation of affordable rental housing; and making more funding available to Community Development Finance Institutions (CDFIs) and non-profit housing groups for affordable housing production under the Capital Magnet Fund.

- Boost the supply of manufactured housing and 2-4 unit properties by expanding financing through Freddie Mac. Along with Fannie Mae's and the Federal Housing Administration's (FHA) existing policies, these steps will enable more Americans to purchase homes, and increase the availability of rental units throughout the country.
- Make more single-family homes available to individuals, families, and non-profit organizations – rather than large investors – by prioritizing homeownership and limiting the sale to large investors of certain FHA-insured and HUD-owned properties, in addition to expanding and creating exclusivity periods in which only governmental entities, owner occupants, and qualified non-profit organizations are able to bid on certain FHA-insured and government-owned properties.
- Work with state and local governments to boost housing supply by leveraging existing federal funds to spur local action, exploring federal levers to help states and local governments reduce exclusionary zoning, and launching learning and listening sessions with local leaders.

Boosting the Supply of Quality, Affordable Rental Units

Even before the pandemic, 11 million families – or nearly a quarter of renters – paid more than half of their income on rent. President Biden believes this is unacceptable. Rent should be affordable for working families. That's why the President's Build Back Better Agenda calls for the historic investments that will enable the construction and rehabilitation of more than a million affordable housing units, reducing the burden of rent on American families. From the expansion of the Low-Income Housing Tax Credit (LIHTC) to major investments in the HOME Investment Partnerships program, the Housing Trust Fund, and the Capital Magnet Fund, the Build Back Better Agenda will make it easier for more Americans to find quality, affordable places to live.

But even before Congress passes the Build Back Better Agenda, agencies across the federal government are taking action to boost the supply of quality, affordable homes in a manner that will make rental homes more available and more affordable over the next three years. Specifically, agencies are announcing today that they are:

- Relaunching the Federal Financing Bank and HUD Risk Sharing Program: To expand the supply of affordable multifamily rental housing, Treasury and HUD have finalized an agreement to restart the Federal Financing Bank's support of HUD's Risk Sharing program, which was suspended in 2019. The agreement will provide low-cost Ginnie Mae-comparable rates to HFAs that finance affordable housing development, enabling the development of new quality and affordable housing.

- Increasing Fannie Mae and Freddie Mac's Low-Income Housing Tax Credit Investment Cap: LIHTC is the nation's largest federal program for the construction and rehabilitation of affordable rental housing. Currently, the Enterprises are permitted to invest up to $1 billion per year (or $500 million each) in affordable housing development and preservation supported by these tax credits. This targeted investment further reduces financing costs associated with affordable housing and spurs additional development. Today, FHFA is announcing that it is raising the Enterprises' LIHTC cap to $1.7 billion (or $850 million each). FHFA is also announcing that it will increase the Duty to Serve (DTS) rural/targeted investment requirement from 40% to 50% of each Enterprise's total LIHTC investment capacity, or $425 million in targeted investment and $425 million in unrestricted investment. By both raising the caps and targeting the investments at affordable rental housing, today's actions will support the development and preservation of affordable units in areas most in need.

- Making Funding Available for Affordable Housing Production Under the Capital Magnet Fund: The Treasury Department is preparing to issue a notice of funding availability for the Capital Magnet Fund (CMF), including changes to strongly encourage affordable housing production. The CMF is a competitive grant program for Community Development Financial Institutions (CDFIs) and non-profit housing groups funded by allocations made each year from Fannie Mae and Freddie Mac. Funds must be used to leverage housing and economic development investments at least ten times the size of the award amount. This year's historic pool of $383 million in available funding will facilitate the production of affordable housing units throughout the country.

Boosting the Supply of Manufactured Homes and 2-4 Unit Properties

Across the country, hundreds of thousands of families rely on manufactured housing and 2-4 unit properties to afford homeownership. Manufactured housing is constructed in factories and installed on site without the additional costs associated with traditional homebuilding, providing a vital affordable housing option. Owner-occupied 2-4-unit properties, where the owner occupies one of the units and rents the other units, are another source of additional rental housing, particularly in low-to-moderate income communities and communities of color. Limited financing for manufactured housing and 2-4-unit properties—as well as other barriers—have restricted access to these alternatives.

Today, the Administration is calling on state and local governments to reduce zoning and financing barriers to these kinds of housing – housing that allows families to achieve homeownership and build wealth. In addition, federal agencies are taking the following steps to increase financing options and boost availability, supply, and affordability for these types of properties:

- <u>Making Financing More Available for Manufactured Housing:</u> In 2020, FHFA authorized Fannie Mae to accept loan delivery on single-wide manufactured housing. An eligible single-wide, or single-section manufactured housing unit, is a factory-built rectangular structure placed on a permanent foundation and equivalent in quality and amenities to entry level stick-built housing. FHFA recently authorized Freddie Mac to accept eligible single-wide manufactured housing loan deliveries as well, which will make more financing available for such properties and facilitate the delivery of more manufactured homes. The Enterprises will continue performing industry-wide outreach and education about the eligibility of manufactured housing, modular, and factory-built homes. FHA also insures mortgages for single-wide manufactured homes that meet its programmatic requirements.
- Making Financing More Available for 2-4 Unit Properties: FHFA has authorized Freddie Mac to revisit certain mortgage eligibility requirements for 2-4 unit properties made in 2020 that reduced financing available by Freddie Mac for these kinds of properties, which are disproportionately held by Black and Brown homeowners. The updates to the 2-4 unit mortgage eligibility requirements will add to the

availability of rental units in these properties. They will also provide additional wealth-building opportunities for new owners of 2-4 unit properties who benefit from the rental income associated with these units. FHA also insures mortgages for 2-4 unit properties that meet its programmatic requirements.

Making More Single-Family Homes Available to Individuals, Families, and Non-Profits Organizations – Rather Than Large Investors

The effect of investor purchases is felt across the country, even in smaller and less expensive cities where the influx of investor cash has resulted in fierce competition for starter homes and pushed many qualified potential homebuyers towards rentals. As the economy continues to recover, it is critical that owner occupants and non-profit organizations are not priced out of single-family housing markets by large investors.

That's why President Biden calls on state and local governments to take steps to make it easier for owner occupants and non-profit organizations to purchase single-family homes, rather than large investors. It's also why today, federal agencies are taking steps to encourage the owner occupant and non-profit purchase of government-insured and government-owned properties. When combined with the new federal tax credit that President Biden has proposed, based on the innovative, bipartisan Neighborhood Homes Investment Act, these actions will lead to the rehabilitation of more distressed properties, and boost homeownership and wealth-building possibilities for more middle-class families throughout the country. Specifically, federal agencies are announcing today that they are:

- Prioritizing Homeownership in the Sale of FHA-Insured Properties: Through Second Chance Claims Without Conveyance of Title (CWCOT) sales, servicers can sell their FHA-insured foreclosed properties directly to third parties – without conveying them to HUD – and still get their claim paid by FHA. These sales are a part of the CWCOT claim method, which is now the predominant way that FHA-insured foreclosed properties are sold. This sales method reduces costs for taxpayers but too often, properties are sold to large investors, who either flip them for profit or rent them out. Owner occupants and non-profits, who are more likely to need financing and are less aware of the CWCOT program, often don't have a fair shot to purchase these properties. Consistent with the American Housing and Economic Mobility Act, HUD will develop guidelines over the next year that provides an exclusive listing period during which only governmental entities, non-profits, and owner occupant buyers may submit bids for these properties in the Second Chance sales. In addition, and also within a year, HUD is exploring setting a target of at least 50 percent of these properties each year being conveyed to governmental entities, non-profits, and owner occupant buyers.

- Promoting the Sale of Distressed HUD Properties to Non-Profits: The direct sale of defaulted FHA-insured mortgage notes allows HUD to make bulk sales to purchasers with affordable housing and community revitalization goals in specific geographic areas. HUD is planning a sale of distressed single family notes this fall. This upcoming sale is currently projected to include mortgage notes for more than 1,700 single family properties. For this sale, HUD is exploring offering 50% of those notes to non-profit and community organizations that commit to rehabilitating, and then selling, the related properties to owner occupants or creating other positive outcomes for the communities. This is a significant increase over previous sales, which had offered 10% of all auctioned notes to non-profit and community organizations. Earmarking half of these properties exclusively for resale to owner occupying borrowers, non-profits, and community organizations will expand the housing inventory available to potential homebuyers who otherwise would not have the opportunity to place a competitive offer on these homes.

- Expanding the Exclusivity Period for HUD and the Enterprise's Real Estate Owned (REO) Sales: Currently, HUD and the Enterprises have a total of more than 12,000 single-family homes as part of their respective Real Estate Owned (REO) inventory. These homes were backed by FHA-insured mortgages, or Fannie Mae or Freddie Mac mortgages, and have since been foreclosed upon and were not sold at auction. Just like with the CWCOT program, larger investors, often experienced and without the need for financing, can execute transactions quickly. As a result, potential owner occupants don't get a fair shot at purchasing the properties. In order to help more potential owner occupants purchase these properties, FHA, in addition to the Enterprises at the direction of FHFA, will extend their existing "first look" periods to 30 days for the sale of all available REO properties. Currently, these "first look" periods generally range from 10-20 days. During the "first look" periods, only potential owner occupants and qualified non-profit buyers will be permitted to make a purchase offer.

- Improving Outreach to Non-Profits for Real Estate Owned Sales: HUD will announce efforts to expand outreach to non-profit entities, local governments, and other interested community organizations to further educate them on the note sales process for distressed properties. This will include a virtual note sales educational seminar around HUD's upcoming fall single family note sale. The Enterprises will continue to advance existing partnerships they have in place with non-profits focused on owner occupancy and neighborhood stabilization to complement the retail disposition of their REO properties.

Working with State and Local Governments to Boost Housing Supply

While the federal government has a critical role to play in boosting the supply of affordable homes, state and local governments often play the primary role in setting policies that encourage – or in some cases, discourage – boosting housing supply. One of the most persistent factors depressing the supply of housing, especially entry-level and rental units, is exclusionary zoning laws and practices, like minimum lot size requirements, minimum square footage requirements, unnecessary parking requirements, prohibitions on or differing treatment for multi-family homes, accessory dwelling units, and manufactured housing, and limits on the height of buildings.

That's why today, in addition to the zoning reform incentives included in the Build Back Better Agenda, the Administration is calling on state and local governments to take action to address zoning policies that have historically locked families out of communities and continue to limit housing supply.

In order to partner with state and local governments in this critical work, the Administration today is announcing the following actions:

- Leveraging Federal Funding to Spur State and Local Action: To support state and local governments that receive flexible HUD block grant funding, HUD's Office of Community Planning and Development will create a Housing Supply Toolkit that provides easy-to-implement strategies to deploy existing block grants and other resources to address supply and affordability challenges that have been deepened by the pandemic. In addition, HUD will form and support a cohort of communities working to address supply issues, helping accelerate their efforts to find solutions. In addition, the Interim Final Rule governing the American Rescue Plan's $350 billion State and Local Fiscal Recovery Funds explicitly allows recipients (states, territories, Tribal governments, and localities, including cities and counties) to invest these funds in development and preservation of affordable housing, as part of the response to the public health emergency and its disparate impacts on certain populations and geographies. Already, at least 42 cities and 33 states have publicly proposed deploying resources on affordable housing investments of some type. Treasury will continue to engage with mayors, governors, and county executives to highlight this use, and encourage additional affordable housing production targeted to the households and communities struggling the most.

- <u>Exploring Federal Levers to Partner with States and Local Governments to Reduce Exclusionary Zoning:</u> FHFA is announcing that it will conduct a study on the degree to which the Enterprises' mortgage activity is concentrated in jurisdictions with exclusionary policies. The report will provide data on the demographic characteristics of homeowners whose loans are purchased by the Enterprises and the overall effect of these purchases in allowing localities to sustain restrictive zoning measures or helping to support localities enacting inclusionary zoning policies.

  In addition, and in anticipation of the Build Back Better Agenda's community engagement and investment grants that will empower communities to reach collective decisions on how to meet their housing needs, next week HUD's Office of Policy Development and Research will release its latest research on actions that state and local governments have taken to increase housing supply, providing useful examples for others to follow. Lessons learned will be incorporated into HUD's Regulatory Barriers Clearinghouse, a searchable electronic database that contains over 4,800 barriers and solutions spanning all 50 states and over 460 cities and counties.

  <u>Launching Learning and Listening Sessions with Local Leaders</u>: The persistent imbalances in the U.S. housing market have formed over many decades and it will take concerted effort and iterative policymaking to correct them. To this end, the White House, HUD, and FHFA will convene state and local officials and stakeholders for a series of peer learning and listening sessions. These sessions will allow for the exchange of best practices on locally led zoning reform to address supply and affordability challenges, including a virtual session on accessory dwelling units hosted by FHFA in September. The sessions will also identify the obstacles to implementation that remain, which the President's Build Back Better Agenda and potentially federal administrative action, can help address.