



District of Columbia Housing Finance Agency

815 Florida Avenue, NW Washington, DC 20001-3017

August 5, 2008

Dear Development Partners:

It is with great pleasure that I inform you that H.R. 3221, the Housing and Economic Recovery Act, has now become law. As many of you already know, this federal measure represents a tremendous opportunity to both improve the efficiency and increase the capacity of affordable housing development in the District of Columbia, while also opening the possibility for the District's housing agencies to play a key role in responding to the foreclosure crisis. It goes without saying that the relief envisioned by the new law could not have come at a better time.

The national credit and foreclosure crises have cumulatively threatened to stall our efforts to bring more affordable housing to the District. Now, the District of Columbia Housing Finance Agency is in an even stronger position to counter those threats due to the additional \$101,240,858 that the law adds to the District's existing \$262,095,000 private activity bond volume cap allocation for 2008. This increase in the District's available Mortgage Revenue Bond allocation coincides with a \$0.20 per capita increase to Low Income Housing Tax Credits ("LIHTC") for this year and next year. Still, these are only a few of the new funding avenues that will be made available in the District of Columbia as a result of the recent enactment.

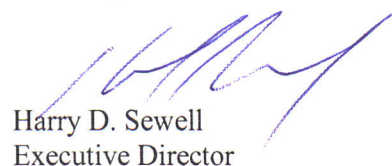
Another \$4 billion in funds has been allocated to states and municipalities to assist with the purchase and rehabilitation of foreclosure properties, as well as an additional \$180 million for states to use to improve access to housing counseling programs. The Act also establishes an affordable housing trust fund that will reserve 90% of its revenue for multifamily units. Therefore, I encourage you to take a look at the District specific summary of the Act that is included with this letter.

HR 3221 will also enable the District to improve the efficiency of the funding process by implementing parity between the regulations governing Mortgage Revenue Bonds and LIHTC. In addition, the Act increases the FHA/Fannie Mae/Freddie Mac conforming loan limit to \$625,000, as of January 1, 2009.

Over the next few months, those charged with implementing the new law will be working hard to craft procedures for putting the measure into action. Count on the District of Columbia Housing Finance Agency to keep you informed of each new development.

As always, we applaud your commitment to making affordable housing available in the District of Columbia and look forward to our continued relationship.

Sincerely,



Harry D. Sewell
Executive Director

The Housing and Economic Recovery Act: Benefits to the District of Columbia



*District of Columbia
Housing Finance Agency*

Harry D. Sewell, Executive Director

August 5, 2008

Table of Contents

I	Introduction.....	2
II.	Six Additional Federal Funding Sources to Meet the District’s Affordable Housing Goals.....	3
	A. Temporary Housing Bond Volume Cap Increase.....	3
	B. Low Income Housing Tax Credit (“LIHTC”) Cap Increase.....	3
	C. Neighborhood Stabilization Funding.....	4
	D. Capital Magnet Fund.....	5
	E. Affordable Housing Trust Fund.....	5
	F. Housing Counseling Assistance.....	6
III.	Impact on the District’s Single-Family Programs Chart.....	7
IV.	Alternative Minimum Tax Changes.....	8
V.	Parity between the Housing Bond and LIHTC regulations.....	8

I. INTRODUCTION

On July 30, 2008, President Bush signed into law the Housing and Economic Recovery Act of 2008. The more than 600-page long bill contains a series of provisions that enact significant changes to existing federal housing programs, establish the creation of a new federal housing agency, and implement a series of new programs aimed at affordable housing and foreclosure relief. The purpose of this summary, however, is to isolate those provisions that impact the District of Columbia’s affordable housing community and to provide a synopsis of the projected impact. Accordingly, what follows is a synopsis of the most important changes wrought by the Housing and Economic Recovery Act for the District of Columbia.

II. SIX ADDITIONAL FEDERAL FUNDING SOURCES TO MEET THE DISTRICT'S AFFORDABLE HOUSING GOALS

A. Temporary Housing Bond Volume Cap Increase Quick Facts

Federal Dollars Allocated:	\$10.92 Billion
District's Anticipated Portion:	Another \$101,240,858 to 2008 volume cap of \$262,095,000
Time Restrictions:	One-time 2008 Allocation; Carry forward through 2010 only

As part of the Housing and Economic Recovery Act, the Federal Government has allocated approximately \$11,000,000,000 in tax-exempt housing bond authority to increase each state's volume cap for calendar year 2008. Each State's increase is approximately 38.6% of its original volume cap and, thus, the District of Columbia stands to receive an additional \$101,240,858. This one-time increase in volume cap occurs only in 2008.

Though the grant of additional bond authority is limited to 2008, it can be carried forward through 2010 and, therefore, may be used to generate single-family or multifamily bond proceeds in 2008, 2009, or 2010.¹

B. Low Income Housing Tax Credit Volume Cap Increase Quick Facts

Federal Dollars Allocated:	Additional \$0.20 per capita or 10% increase to small state cap
District's Anticipated Portion:	Another \$232,500 to 2008 LIHTC cap of \$2,325,000
Time Restrictions:	Increase applies only to years 2008 and 2009

In both calendar year 2008 and calendar year 2009, the Housing and Economic Recovery Act mandates an increase in the state ceilings on Low Income Housing Tax Credits ("LIHTC") by adding another 20 cents to the existing per capita amount for each year. For the District of Columbia, the end result of this temporary increase in 2008 is another \$232,500, making \$2,557,500 the estimated total amount of available LIHTC for the year. The estimated LIHTC available in 2009 is still being determined.

¹ Any use of the increased cap for single-family bonds is conditioned, however, upon the requirement that the bonds be redeemed from unused proceeds within 12 months of the issuance date. Therefore, the 42-month period applicable to single-family bonds issued under the ordinary volume cap does not apply to authority produced by the one-time increase.

C. Neighborhood Stabilization Funding Quick Facts

Federal Dollars Allocated:	\$ 3.92 Billion
District's Anticipated Portion:	Greater than or equal to \$19.6 million (up to \$31.9 Million)²
Timing Restrictions:	Funds must be used by District within 18 months of receipt
Use Restrictions:	All funds must be used on households with incomes less than or equal to 120% of Area Median Income ("AMI"), \$118,800; At least 25% of the funds must be used to target households with incomes less than or equal to 30% of AMI, \$29,700.

The Housing and Economic Recovery Act allocates approximately \$4 Billion in Neighborhood Stabilization funds to be used by states to establish funding mechanisms for either:

- the purchase and redevelopment of foreclosed upon or abandoned single-family homes;
- the purchase and rehabilitation of multifamily properties that have been abandoned or foreclosed upon;
- the establishment of land banks for foreclosed homes;
- the demolition of worn-down structures; or
- the redevelopment of demolished or vacant properties.

Under the Act, each state must receive at least \$19.6 million in neighborhood stabilization funding, with additional money being awarded based on a pre-established criteria. According to the Center for American Progress Fund's analysis of the District of Columbia in relation to the criteria, a more accurate estimate of the District's award is approximately \$31.9 million. The District will have 18 months to use the funds after receipt. In distributing the funds, the District must also give priority consideration to projects in areas with the greatest percentage of foreclosures, the highest percentage of subprime mortgages, and any area most likely at risk for increased foreclosures.

All neighborhood stabilization funds must be used to assist households with incomes less than or equal to \$118,800, 120% of the District's AMI. At least 25% of the funds must be used to target households with incomes less than or equal to 30% of the AMI, \$29,700.

² The Center for American Progress, one of the principal advocates of the funding program, has conducted a state-by-state analysis of awards based on the criteria contained in the passed bill. Their estimate of the District's actual award amount is the bracketed figure.

D. Capital Magnet Fund Quick Facts

<i>Federal Dollars Allocated:</i>	Estimated \$99 million in fiscal year 2010
<i>District's Anticipated Portion:</i>	<i>Federal Grants Released to Eligible Recipients</i>
<i>Anticipated Availability Date:</i>	Not Until October 1, 2010
<i>Eligible Class of Recipients:</i>	Community Development Financial Institutions ("CDFI"); A Nonprofit that has either the development or the management of affordable housing as one of its principal purposes.
<i>Time Restrictions:</i>	Unless grants are committed for use within 2 years, they will revert back to the fund

The Capital Magnet Fund will be used by the Treasury Department to implement a competitive grant program to attract private capital to the development, preservation or rehabilitation of affordable housing for extremely low-income, very low-income and low-income families. In addition, the funds will be made available to provide economic activities or community services facilities, including day care centers, workforce development centers and health care clinics.

Grantees may include Treasury-certified community development financial institutions or nonprofits involved in the development or management of affordable housing.

The Capital Magnet Fund is a permanent trust fund with a dedicated source of funding from a 4.2 basis point fee paid by Fannie Mae and Freddie Mac on all new mortgage loan purchases. Thirty-five percent of the generated fees will be transferred to the Treasury to fund the Capital Magnet Fund, starting in 2010.

E. Affordable Housing Trust Fund Quick Facts

<i>Federal Dollars Allocated:</i>	Estimated \$186 million in fiscal year 2010
<i>District's Anticipated Portion:</i>	<i>To be determined</i>
<i>Anticipated Availability Date:</i>	Not Until October 1, 2010
<i>Eligible Recipients:</i>	Non & For-Profit Developers; Single Family Purchasers
<i>Use Restrictions:</i>	State must allocate at least 90% of the funds to multifamily rentals; All funds must be used to assist households with incomes less than or equal to 50% of AMI, \$49,500; At least 75% of funds must be used to target households with incomes less than or equal to 30% of AMI, \$29,700

The Affordable Housing Trust Fund created by Housing Recovery Act is a permanent trust fund to assist with:

- the production, preservation, and rehabilitation of rental housing,
- the funding of rental housing operating costs; or
- the production, preservation and rehabilitation of housing for homeownership for very or extremely low-income first-time buyers, including down payment assistance, closing cost assistance, and assistance for interest rate buy-downs.

Ninety percent of the funds received by a state under the Affordable Housing Trust Fund must be dedicated to multifamily rentals. All Affordable Housing Trust Fund monies must be used to assist low-income households with incomes not greater than 50 percent of Area Median Income. In addition, at least 75 percent of the funds must be used to assist households with incomes not greater than 30 percent of Area Median Income. Spending on homeownership activities cannot exceed 10 percent of the total state allotment. Like the Capital Magnet Fund, The Affordable Housing Trust Fund has a dedicated source of funding from a 4.2 basis point fee paid by Fannie Mae and Freddie Mac on all new mortgage loans purchases. Sixty-five percent of the generated fees will be transferred to HUD to fund the Housing Trust Fund.³

F. Housing Counseling Grants Quick Facts

<i>Federal Dollars Allocated:</i>	\$180 million
<i>District's Anticipated Portion:</i>	<i>Federal Grants Released to Eligible Recipients</i>
<i>Anticipated Availability Date:</i>	Before September 30, 2008

\$180 million is set aside for the National Revitalization Corporation to use, by September 30, 2008, in developing foreclosure mitigation strategies. At least \$30 million of the allocated funds must be distributed as grants to housing counselors or attorneys providing foreclosure or delinquency assistance to homeowners. At least 15 percent of those counseling funds must be directed to counseling organizations whose counseling services target minorities or low-income homeowners or who provide counseling in a neighborhood with high concentrations of minorities or low-income homeowners.

³ However, none of the fees paid by Fannie Mae or Freddie Mac or grants awarded under the fund will be counted toward Fannie Mae or Freddie Mac's affordable housing goals or each entity's obligation to serve underserved markets.

III. IMPACT ON THE DISTRICT'S SINGLE-FAMILY PROGRAMS CHART

SINGLE-FAMILY CHANGE	IMPACT
<p>Temporary Use of Mortgage Revenue Bonds to Refinance Subprime Home Loans</p>	<p>Through 2010, an issuer may elect to use mortgage revenue bonds to refinance any adjustable-rate, single-family mortgage made between December 31, 2001 and January 1, 2008. Any Bond issuer that elects to implement a refinancing program will be required to determine the borrower's eligibility based on the following standard: "will the failure to refinance the loan cause the borrower a financial hardship?"</p>
<p>FHA Ban on Seller-Financed Down Payment Programs</p>	<p>Effective October 1, 2008, the FHA will no longer insure mortgages that involve a seller-funded downpayment assistance program. Thus, the provision prohibits the use of downpayment assistance programs funded by anyone who has a financial interest in the sale.</p>
<p>Establishment of Temporary First-Time Homebuyer "Tax Credit"</p>	<p>In the event that the District of Columbia First-Time Homebuyer Tax Credit is not renewed by Congress,⁴ a District taxpayer who purchases a principal residence between April 9, 2008 and July 1, 2009 and has an income of \$75,000 or less (\$150,000 if filing jointly),⁵ will be eligible to receive a tax credit equal to 10% of the home's cost or a maximum of \$7500. The tax credit essentially operates like an interest-free loan. Accordingly, the Internal Revenue Service is required to annually recapture 6.67% of the credit from the taxpayer over 15 years. In the event that the taxpayer sells the home prior to the end of the 15 year-period, any remainder is immediately recaptured upon the sale.</p>
<p>Conforming/Permanent Loan Limits for FHA, Fannie Mae, & Freddie Mac</p>	<p>As of January 1, 2009, the Fannie Mae/Freddie Mac conforming loan limit and the FHA permanent loan limit for District Properties will increase to \$625,000.</p>

⁴ The Federal first-time homebuyer credit includes a provision specifically excluding from its eligibility any District resident that may claim a first-time purchase tax credit under 26 U.S.C. §1400(c). However, the 1400(c) Tax Credit expired December 31, 2007. Recently, the House of Representatives passed legislation renewing the credit, but as of the writing of this summary—August 1, 2008—the Senate had not approved the measure.

⁵ The credit phases out at incomes of \$95,000 for single filers and \$170,000 for joint filers. In addition, the credit is limited to individuals who have not owned properties within the three years preceding the purchase.

III. ALTERNATIVE MINIMUM TAX CHANGES

Financing Mechanism	Permanently Excluded from Alternative Minimum Tax?	Applicability Period
Single-Family & Multifamily Housing Bonds	Yes	Bonds issued after July 30, 2008, excluding any refunding of a bond issued prior to enactment.
Low Income Housing Tax Credits	Credits May be used to Offset Alternative Minimum Tax	Buildings placed in service after December 31, 2007
Qualified Veterans' Mortgage Bonds	Yes	Bonds issued after July 30, 2008

In addition to permanently excluding the above bonds from Alternative Minimum Tax calculations, the Housing and Economic Recovery Act of 2008 also prevents the indirect inclusion of housing bonds into a corporation's calculation of alternative minimum tax by excluding tax-exempt housing bonds from the general rule that a corporation must include 75% of income from tax-exempt bonds in the company's adjusted current earnings.

IV. PARITY BETWEEN THE HOUSING BOND AND LIHTC REGULATIONS

The Act implements four new regulations designed to improve parity between the regulations governing Low Income Housing Tax Credits and Housing Bonds:

1. Effective immediately, Housing Bonds can now be used to finance single-room occupancy units;
2. The determination of area median gross income for any year after 2008 will not be less than the area median gross income for the previous year.
3. For any housing bond financed building that also receives a low-income housing tax credit under section 42, the next available unit rule will apply on the basis of individual buildings rather than to multi-building projects.
4. As is already the case for LIHTC projects, a unit financed by bonds will not fail to be a qualified unit because it is occupied by a student if one of the following criteria is satisfied:

- the student is receiving assistance under title IV of the Social Security Act, the Job Training Partnership Act, or a similar Federal, State, or local law; or
- the full-time students are married and file a joint return; or
- the full-time student is a single parent with children and is not the dependent of another taxpayer.