Decoding Housing Finance Agencies

State housing finance agencies play a pivotal role in affordable-housing development, yet many advocacy organizations don't know how to gain leverage in influencing these increasingly powerful bodies. By Corianne P. Scally

TABLE 1: Relative Interest Group Compatibilities with HFA Priorities

	HFA PRIORITIES			
INTEREST GROUPS	Risk-Averse	Production-Oriented	Politically Engaged	Mission-Driven
Advocates	–	–	–	+
For-Profit Developers	–	+	–	–
Nonprofit Developers	–	+	–	+
Lenders	O	–	–	–

Legend: – means priority is lower for interest group; + means it is higher; O means that it is relatively the same.

Before the emergence of state housing finance agencies (HFAs) in the 1960s, the federal government and local public housing authorities were where affordable housing development and finance began and ended. Beginning with New York, HFAs represented the first coordinated state government response to the failure of the private market to provide low- and moderate-income housing. They were born on the heels of the civil -rights movement and urban riots, and amidst the deliberations of the Douglas and Kaiser Commissions on urban problems and housing.

These two landmark presidential commissions identified the lack of affordable housing, coupled with intense residential segregation, as major contributors to the frustration and anger of communities of color. Those states with cities that had some of the most violent and costly riots—Detroit, Mich.; Chicago, Ill.; and Newark, N.J.—were among the first to establish housing finance agencies.

HFAs emerged as both a practical and politically expedient means of increasing the supply and affordability of housing at little cost to the state. They were used to finance housing construction and purchase through the sale of bonds and to administer emerging federal programs, such as the Section 236 mortgage-subsidy program for multifamily housing construction. By doing so, these agencies became a revenue-generating, financially self-sufficient means of increasing affordable housing. The strategy yielded dramatic results. In 1973, the 12 most active HFAs reported financing more than 200,000 affordable units through bond sales, the federal Section 236 program, and other sources.

Over the years, HFA activities have evolved significantly, from an experiment in affordable-housing finance to the primary mechanism for addressing state-level affordable-housing needs. A thorough understanding of HFAs is thus crucial for those seeking to expand access to housing for low- and moderate-income households. Nevertheless, most housing advocates have an imperfect grasp of what HFAs do and how they can effectively influence HFA actions.

Advocates often underestimate the scope and power of HFAs, and overestimate the complexities of housing finance, especially bond financing. They also find themselves at a strategic disadvantage because of a lack of comprehensive public accountability for HFA programming.

HFAs in Action

Beginning in the 1980s, HFAs grew in their role as administrators of various federal and state subsidy and finance programs, including the federal Low Income Housing Tax Credit (LIHTC) program, and a variety of state programs, such as housing trust funds and tax credits. Today, through their mortgage revenue bond programs, HFAs finance more than 100,000 new low- and moderate-income homeowners every year, and have assisted more than 2.2 million households to date. In addition, they have financed more than 1.3 million rental units nationwide through the use of the LIHTC program.

In addition to these traditional financing activities, HFAs are increasingly involved in other housing arenas. More HFAs find themselves in the position of planning and coordinating multiple housing programs, either because of specific legislative or gubernatorial mandates, or an existing leadership vacuum that agencies choose to fill. This includes developing the Qualified Allocation Plan for the LIHTC program, as well as contributing to HUD-required consolidated plans for the use of federal Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Emergency Shelter Grant (ESG), and Housing Opportunities for Persons with AIDS (HOPWA) programs. Some states, such as Illinois, require HFA participation in an annual comprehensive plan for addressing critical housing needs, with a requisite action plan and annual progress updates.

Many HFAs also recognized the importance of increasing the ability of nonprofits to develop and manage affordable housing. They often support this by funding technical-assistance providers and training programs focused on improving these skills among nonprofit developers.

HFA Priorities

There are at least four defining characteristics of state housing finance agencies that influence their activities. First, as lending institutions responsible to their board of directors, bondholders, and the agencies that rate their creditworthiness, they are financially risk-averse. Second, as production-oriented financers of affordable housing, they are beholden to the developers and financial institutions with whom they partner. Third, as quasi-governmental agencies, they are politically engaged, guided by the actions of the governor and legislature. Finally, as agencies with a public mandate to address state low- and moderate-income housing development, HFAs are socially mission-driven and thus accountable to housing consumers and their advocates.

These often-conflicting qualities lead to internal tensions in HFAs and generate friction between the agencies and other housing stakeholders with which they must cooperate in order to develop affordable housing. In its 2006 annual report, the Illinois Housing Development Authority (IHDA) aptly describes the balancing act HFAs must perform:

“The Illinois Housing Development Authority functions in two different worlds. IHDA is a social purpose government entity responsible for executing the Governor’s leadership on affordable issues and responsive to the housing needs of Illinois. IHDA is also a self-supporting financial institution that must remain fiscally sound and under the scrutiny of private investors so that we can leverage private capital to invest in our social purpose work."

HFAs wrestle with a double bottom-line similar to the one nonprofit developers face: remaining fiscally solvent while maximizing social goals. For, HFAs, however, the stakes are numerically much higher.

As detailed in Table 1 above, HFAs are characteristically more averse to taking risks than their partners, except for lenders that share a similar level of aversion. For example, developers may judge risks differently than HFAs, and be willing to speculate based on their more intimate knowledge of local housing market conditions.

Some observers believe an overemphasis on risk makes HFAs too conservative, causing them to miss strategic opportunities to address state housing needs. According to Ben Applegate of Applegate & Thorne-Thomsen, an attorney who represents housing developers: "Their [staff] inclinations are toward risk avoidance at all cost, even if it means transactions are more expensive for them to do, take longer for them to do, maybe even result in some deals not getting done."

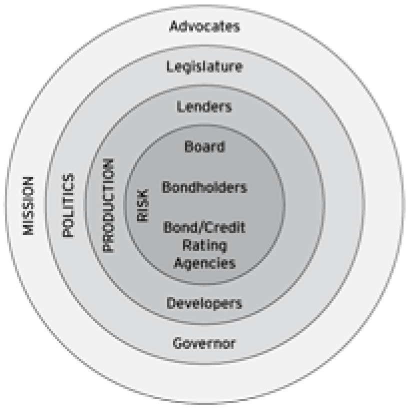
On the other hand, as Joyce Probst MacAlpine, former senior policy development adviser on housing to Illinois Gov. Rod Blagojevich, says, the policy-making role housing finance agencies are being asked to play can conflict with their need "to respond to the bond-rating agencies who will look at the…entire book of business when they are rating the authority. I think that does shape their decision-making on policies about investing in projects and the amount of risk they are willing to take."

Another source of conflict is an HFA's production-oriented nature. While developers are obviously more focused on production than HFAs, advocates may be more concerned about the types of units or the types of people being served by a given project. Advocates may also have a greater interest in preserving the affordability of existing units through refinancing, which does not result in a net increase in units. According to Diane Sterner, executive director of the Housing and Community Development Network of New Jersey, "Preservation is not very sexy, because there's nothing new to show for it. A lot of the state [including New Jersey Housing and Mortgage Finance Agency (NJHMFA)] programs make it difficult to do preservation, although recently they've been focusing on it more. Resources are just plain scarce now, but it seems that support for preservation is growing as opportunities for new development dry up." Lenders, on the other hand, are typically more interested in money matters than how many units are built or preserved.

Politically, HFAs are uniquely situated, along with other state finance authorities. While most (75 percent) are in but not of state government—governed by an independent board, rather than the legislature—this board is often composed of ex-officio members and those appointed by the governor. Similarly, while the executive director is hired by the board, the position is often filled by the governor's suggested candidate.

Finally, HFAs were established by state legislatures to fulfill a social purpose: supporting housing development, especially for low- and moderate-income citizens. Lenders and for-profit developers tend to have weaker missions or mandates for such affordable housing, with the exception of those chartered for that purpose (e.g., community development financial institutions). Instead, they are primarily motivated by the financial returns on their investments. Nonprofit developers and housing advocates, on the other hand, have a much stronger sense of mission than HFAs, coupled with the purposeful lack of a profit motive. Advocacy groups are usually formed based entirely on mission.

FIGURE 1
State Housing Finance Agency Circles of Influence



Circles of Influence

These four characteristics of HFAs correspond to four circles of influence on their activities. Figure 1 illustrates the circles of influence, ranked from the inside out according to what drives HFA daily decision-making. HFAs are first and foremost accountable to their board of directors, bondholders, and bond- and credit-rating agencies for financing decisions based on their risk-averse nature. Whereas the board directly approves project financing, concerns of how bondholders and rating agencies will perceive project risk influence HFA decisions more indirectly. A key motivation is preserving the agency's reputation and ratings among these central interests.

The second circle of influence is the HFA's production partners—the developers and lenders who partner with HFAs on a project basis to construct and finance affordable housing. HFAs are reliant on these parties to meet their mission. As a former NJHMFA staff person stated, "the agency is also very good about listening to developers…that are doing the housing, and trying to be responsive to what is working or what is not working or where they should be shifting their program."

In the third circle of influence are the political interests, or the governor and the legislature, who intervene on a less frequent basis to issue new mandates to the agencies and chart progress. They do not have much say over an HFA's day-to-day operations and decisions, since it is usually structured as a self-sufficient quasi-governmental entity. Of these two, the governor seems to have greater sway over HFA activities. In fact, there is a history of legislative distrust of HFAs. In New Jersey, for example, an Assembly task force was formed in 1993 to examine NJHMFA operations in an attempt to exercise greater legislative control over agency affairs, resulting in general recommendations on improving the agency's effectiveness. In Illinois, according to one advocate, some legislators seem to "feel like they don't really know what they [IHDA] do with their money" and "don't want more money going to IHDA if [they] don't know what they're doing with it."

Finally, HFAs can be influenced by demands of the low-income housing advocacy community. Advocates historically have felt ignored by HFAs. According to one IHDA staff person, however, IHDA's relationship with advocacy groups "...probably has improved pretty dramatically" over the past few years.

Increasing Advocacy Effectiveness

There is a clear disconnect between those from whom HFAs take their daily marching orders, and those who could best keep them accountable to their public purpose. The blame rests with both HFAs, which sometimes fail to seek advocate input, and with nonprofit developers and advocates, who often choose to keep an arms-length distance from HFA programs and operations. While there may be some legitimate reasons for this failure to engage, bridging the gap is critical to the future direction of state housing policy and programs.

A new movement has emerged emphasizing the forging of new alliances through multi-interest housing campaigns (MIHCs). The first group, Housing Minnesota, formed in 1998. Today, at least 12 states have a functioning MIHC, with membership ranging from 35 to almost 300 organizations and institutions. Within these groups, mission-driven advocates have joined with more influential production-oriented (e.g., developers, real-estate professionals, financial institutions) and politically motivated (e.g., state legislators, current and former governors, former HFA directors) interests to move a unified agenda on housing. These combinations of influences seem to improve interest-group success in pressuring states and their HFAs to do more to meet affordable-housing needs. This includes passing a broad range of legislation to develop new housing programs and expanding state resources for housing. While MIHCs do not target HFAs per se, as they are usually more focused on legislative solutions, their ideas often encourage (or force) HFA innovation.

In Illinois, a political turning point came when advocates were able to gain the support of housing interests that would have historically been opposed to their efforts. According to one IHDA staffer, when such opposition "disappeared," and former opponents were no longer "using whatever legislative tactics that can be used to stall or delay legislation," state political will for housing innovation increased. This motivated Illinois' governor and legislature to implement a comprehensive planning process forcing IHDA to broaden its focus toward a wider array of state housing needs.

Another example of this type of coalition is Homes for New Jersey. Bringing together homebuilders, landlords, real-estate agents, financial institutions, current and former elected officials, religious communities, and nonprofit developers and advocates, the group seeks to "...promote the production, rehabilitation and preservation of 100,000 homes over the next 10 years in environmentally appropriate places." Gov. Jon Corzine has indicated his support for this goal, directing the New Jersey Department of Community Affairs to spearhead a planning and implementation effort that includes NJHMFA. A housing policy and status report was published in 2006, cataloguing existing state agencies, programs, and resources. Efforts are underway to develop an implementation plan to meet the 100,000-unit goal.

Part of MIHCs' success may stem from their relatively broad housing agenda. Instead of advocating solely for those suffering the worst housing problems, they have cast their policy net more broadly. They have found that affordable-housing policy innovation becomes more politically palatable when a significant emphasis is placed on the so-called "deserving poor," such as low-wage earners, seniors, the disabled, and homeless children, along with service professionals, including teachers, police officers, firefighters, and home health-care workers.

Programs for those with the greatest need are easier to add as one element of a more inclusive agenda.

HFAs have become important players in contemporary affordable-housing solutions. As major financers and administrators of state and federal programs, HFAs often determine and implement state housing priorities, with or without public input. To their credit, they have certainly put housing within the reach of millions of households. However, their risk-averse criteria can trump their mission orientation without some mechanism for deeper public accountability.

One indirect mechanism for increasing public accountability is an MIHC. There is increasing awareness among advocates that partnering with diverse stakeholders can help them increase their influence on HFAs. To balance the power of the HFAs' innermost circle of influence, new statewide MIHCs are emerging to advance a unified policy agenda. These campaigns seem to be unleashing greater political will for more mission-focused housing strategies.

While such campaigns may be helpful in moving bureaucracies in the right direction, however, the necessary compromises, such as focusing primarily on workforce housing, and only secondarily on low-income housing, may be detrimental to achieving sustainably affordable housing. These tradeoffs must be carefully weighed against the benefits of holding HFAs more accountable to their low-income housing mandate.

Through greater understanding of the importance of HFAs to state government housing solutions, and a keener grasp of the challenges HFAs face meeting their double bottom line, advocates can better position themselves to influence where the money goes. They can press for increased accountability by getting involved in crafting state housing-related plans that guide HFA funding priorities, including both federally mandated and state-initiated projects. In addition, forging partnerships with diverse housing stakeholders can increase advocate pressure on HFAs to target funds more strategically, rather than simply approving the easiest, least risky projects. An informed, vocal advocacy community can foster a win-win outcome, delivering for communities in need of affordable housing and helping HFAs stay on track to fulfill their mission.

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