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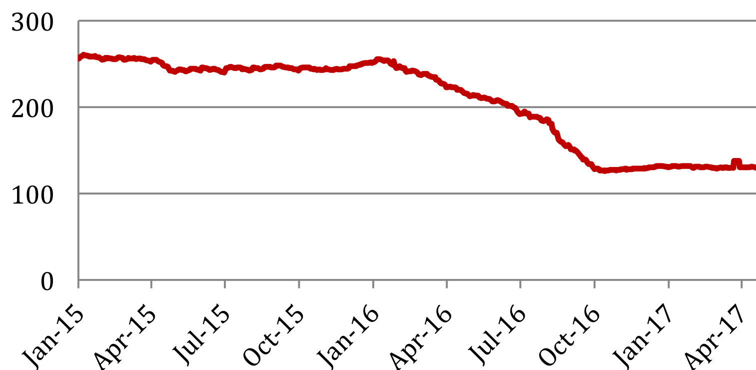
H.R. 2319 and Affordable Housing: Negative Impacts of Recent SEC Money Market Fund Regulations

New money market fund (MMF) regulations that were implemented in October 2016 are having major negative consequences for public issuers and conduit borrowers, such as municipalities and affordable housing agencies. The regulations required Prime and Tax-Exempt money market funds to change from a fixed to a floating net asset value (NAV). As a result, Tax-Exempt MMFs (TE MMFs) are closing and, as shown in Figure 1, 50% of the assets have left. This is drying up a very important source of financing for state and local governments and housing authorities. Additionally, the flight of assets out of Prime MMFs is resulting in higher borrowing costs as the total pool of available capital decreases.

Figure 1.Tax-Exempt Money Fund Asset Levels ($B),
Source: CraneData.com, Treasury Strategies (December 2016)



The financing of affordable housing is one of the biggest victims of this asset flight. State and local housing agencies account for over 15% of all TE MMF assets. Thus, as those assets shrink, so too has funding for affordable housing initiatives. Without TE MMFs, housing authorities are forced to use higher-cost financing sources like bank credit and longer term (higher cost) bonds, or reduce their investments in affordable housing.

Between January 2016 and August 2017, the SEC regulations have negatively impacted affordable housing finance in three significant ways:

- TE MMF **investments in affordable housing declined by over $8 billion**, nearly 30%.
- Interest rates paid by housing finance agencies rose tenfold from .08% to .87%, almost double the Fed rate increase over the same period[1].
- Housing agencies in 18 states lost more than $100 million each.

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[1] Fed Funds rose from 50 to 125 bps - an after-tax increase equal to only 45 bps assuming only a 40% tax rate.

The decline in TE MMF assets is impacting affordable housing agencies in every state.

Figure 2 shows the impact of asset outflows for housing issuers in several states – all of which have seen declines of $100M or more.

Figure 2. Loss of Funding to Housing Related Tax-Exempt Money Fund issuers ($MM)
Source: Cranedata.com, Treasury Strategies (August 2017)

State	Principal Jan 31 2016	Principal Aug 31 2017	Change in Funding	% Change
NY	10,827	7,935	(2,891)	-27%
CA	3,715	3,097	(617)	-17%
AK	660	170	(490)	-74%
MI	957	552	(405)	-42%
WA	1,151	815	(336)	-29%
CO	853	520	(333)	-39%
TN	401	91	(310)	-77%
MN	699	401	(298)	-43%
WI	515	263	(252)	-49%
NJ	630	411	(219)	-35%
OH	336	127	(209)	-62%
PA	530	323	(207)	-39%
NE	341	153	(188)	-55%
SD	278	92	(187)	-67%
GA	401	242	(158)	-40%
TX	740	610	(131)	-18%
MD	245	134	(111)	-45%
VA	194	91	(103)	-53%
All 50 States	**28,107**	**19,908**	**8,199**	**29%**
Average Rate	**0.08%**	**0.86%**		**10X**

H.R. 2319, the Consumer Financial Choice and Capital Markets Protection Act, would permit all MMFs to go back to utilizing a fixed NAV. This would allow investors to pour money back into Prime and Tax-Exempt MMFs, thereby increasing the pool of capital available for affordable housing and other public infrastructure and economic development needs.

Conclusion

The shift of $1.2 trillion from Prime and Tax-Exempt MMFs to Government and Treasury funds as a result the SEC regulations implemented in October 2016 is having a significant negative impact on the ability of state and local governments to finance affordable housing. With a 50% decline in TE MMF assets, housing authorities are being forced to seek higher cost borrowing options like bank credit or costlier longer term debt. For those still able to borrow from TE MMFs, their cost of financing is dramatically higher than prior to implementation of the rule. Either way, fewer resources are available to support the housing needs of low- and moderate-income American. H.R. 2319 is bipartisan legislation that will reverse these unintended consequences of the SEC regulations.