AFFORDABLE RENTAL HOUSING A.C.T.I.O.N.
A Call To Invest in Our Neighborhoods

ACTION Campaign Comments for the Senate Finance Committee Community Development and Infrastructure Working Group

The Housing Credit's Record of Success

- The Housing Credit has financed virtually all new affordable rental housing in the U.S over the last three decades.
- It has created or preserved over **2.7 million affordable homes** by leveraging over $100 billion in private capital.
- Tax-exempt multifamily private activity bonds (Housing Bonds) play a critical role in Housing Credit production because states are able to pair 4 percent Housing Credits with bonds to finance units that would not be possible without the tax-exempt bond financing. These 4 percent Housing Credit developments do not compete for credit authority with the 9 percent Housing Credit developments because the bonds with which they are paired are already limited by the state's annual bond volume cap.
- In a typical year, the Housing Credit supports roughly **96,000 jobs** and adds approximately **$3.5 billion in taxes and other revenues** to local economies, according to the National Association of Home Builders.

Growing Affordable Housing Needs

- An unprecedented **11 million renter households**—more than one in four of all renters in the U.S.—spend more than half of their monthly income on rent, according to the Harvard University's Joint Center for Housing Studies (JCHS).
- The affordable housing crisis is especially acute among those with the lowest incomes. According to JCHS, in 2012 there were 11.5 million extremely low-income families (those with incomes below 30 percent of area median income (AMI)), but only 3.3 million housing units that were both available and affordable to them. This has created an **affordable housing supply gap of 8.2 million homes** just for the lowest income households.
- The affordable rental housing crisis is expected to worsen over the coming years.
- The Housing Credit is essentially the **only way to increase the supply of affordable rental housing** to meet our nation's vast and growing need.

ACTION Campaign Recommendations

- **Protect existing Housing Credit and Housing Bond resources.** Absent the Housing Credit, there is no incentive for the private sector to invest in affordable housing. According to JCHS, to develop new apartments affordable to renter households working full-time and earning the minimum wage without the Housing Credit, construction costs would have to be reduced by 72 percent of the current construction cost average.

- Preserve **both the "9 percent" and "4 percent'** Housing Credits
  - It is important to protect the fundamental components of the program and not impose new limitations on eligible activities. There are two types of Housing Credits: the 70 percent present value credit (referred to as the "9 percent credit") for new construction and substantial rehabilitation of properties that are not financed with the proceeds of Housing Bonds, and the 30 percent present value credit (referred to as the "4 percent credit") for the acquisition of existing buildings and for newly constructed or substantially rehabilitated properties which receive Housing Bond financing. While there is a clear need to build new affordable units, acquisition and rehabilitation of existing properties to preserve affordable housing is also a crucial use of the Housing Credit, including preventing existing federally assisted housing from being lost to obsolescence or decay or converted to market rate housing.

- Retain the **tax exemption for Housing Bonds**
  - Housing Bonds used in conjunction with 4 percent Housing Credits are responsible for financing more than 40 percent of annual Housing Credit production, providing affordable homes to over **1 million families** since 1986.

- Maintain the current **27.5 year depreciation** period for Housing Credit properties.
  - Extending the depreciation period would cause the tax benefits associated with an investment in Housing Credit property to decline, which would cause investors to reduce the price they are willing to pay for credits, and would result in less equity available for properties.

- Making adjustments to **offset the impact of a lower corporate tax rate** on the Housing Credit.
  - Should Congress substantially lower the corporate income tax rate, we encourage Congress to consider making adjustments to the Housing Credit program to ensure that at least as much affordable housing production is supported after tax reform changes are enacted as the Credit supports currently.

- **Expand Housing Credit resources** by an amount that makes significant progress towards meeting the affordable housing needs of low-income families.
  - The affordable housing crisis—already at historic levels—is expected to worsen in coming years. There simply are not enough resources to meet the need, which is great and growing. State Housing Credit allocating agencies typically receive applications

requesting two to three times as many Housing Credit resources as the agencies have to allocate.

- Provide states with flexibility to **maximize Housing Credit resources**, including:
    - Creating a **permanent minimum 9 percent credit rate** for new construction and substantial rehabilitation, as well as a **minimum 4 percent rate** for the acquisition of affordable housing for both allocated and Housing Bond-generated credits.
        - Housing Credit rates currently fluctuate according to a formula related to federal borrowing rates.
        - With interest rates at historic lows, Housing Credit rates are now so low (7.5 and 3.2 percent, respectively) that there is 15 to 20 percent less Housing Credit equity available for any given affordable housing development than the original rates provided.
    - Promoting **broader income-mixing** within developments.
        - Income mixing would allow development sponsors to target a portion of the Housing Credit units in a given project to low-income households with incomes above the Housing Credit's current income restrictions in order to cross-subsidize other units within the project for lower-income households.
        - The average income limit for the property would be required to remain at 60 percent of area median income or less.