

National Consensus Letter to Support and Improve the Low-Income Housing Tax Credit (Housing Credit) Program

The Low Income Housing Tax Credit (Housing Credit) is the nation's largest and most successful rental housing production program, having produced more than 2.4 million affordable apartments and 3.6 million jobs since 1986. The undersigned organizations urge Congress to:

- Protect and preserve the Housing Credit in whatever deficit reduction or tax reform plan Congress considers, and
- Make permanent the temporary fixed floor rate for Housing Credits to sustain their efficiency and effectiveness at little or no cost to the federal government (see specifics below).

The Housing Credit is vital to the creation and preservation of affordable housing in every state in the Union. According to the National Council of State Housing Agencies (NCSHA), approximately 90 percent of all affordable rental housing produced annually is financed through the Housing Credit, and in 2010, half of all multifamily starts were financed by the Housing Credit according to the National Association of Home Builders (NAHB). In a typical recent year, the program supports about 150,000 jobs and adds approximately \$1.5 billion in taxes and other revenues to local economies, according to NAHB. Housing Credit properties are very well managed, with an extremely low foreclosure rate below 0.1 percent, according to Ernst and Young.

The need for affordable rental housing is acute and growing. Renters are constrained by a lack of income growth, and as more people decide to rent, there has not been an accompanying increase in the supply of affordable apartments. Harvard's Joint Center for Housing Studies recently documented an affordability crisis: 49 percent of renters in 2009 were at least moderately cost-burdened and 26 percent were severely cost-burdened. In the types of jobs currently hiring new workers, four out of the five most prevalent jobs do not pay workers enough to afford to rent or buy housing at typical prices nationwide, according to the Center for Housing Policy.

In addition to creating affordable homes, supporting jobs, and expanding local economies, the Housing Credit brings well-designed rental housing to a wide variety of communities, from inner cities to rapidly growing suburbs to rural towns. It builds new affordable apartments and saves valuable at-risk existing affordable housing, preventing displacement as rents outpace incomes. It provides affordable homes to working families and vulnerable populations with special needs—the elderly, people with disabilities, and people who are homeless. It addresses the housing needs of acutely underserved communities, such as farmworkers and Native Americans, and it is the key housing resource for transformative community redevelopment and revitalization efforts nationwide.

The focus on deficit reduction has raised tax reform on the national agenda. As Congress considers various options, it should recognize the Housing Credit as a proven, efficient means for creating affordable housing through public-private partnerships. For more than 25 years after President Reagan signed it into law in 1986, the Housing Credit has leveraged private capital, private development expertise, and private asset management to create affordable housing under the guidance of individual state allocating agencies. The Housing Credit's place in the tax code is an essential part of its long-term success. Indeed, it has been so successful that it has become a model for subsequent programs.

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The undersigned include coalition partners in the Affordable Rental Housing A.C.T.I.O.N. (A Call To Invest in Our Neighborhoods) Campaign — a national, grassroots coalition focused on maintaining investment in affordable rental housing—and represent a broad cross-section of organizations dedicated to the creation of affordable rental homes for lower-income families throughout the country. In addition to protecting and preserving the Housing Credit as a permanent part of the tax code, we support the following legislative proposals to improve its efficiency and effectiveness at little or no cost to the federal government:

1. Make the 9 percent Housing Credit fixed floor rate permanent

The Housing and Economic Recovery Act of 2008 (HERA) set the rate for new construction and substantial rehab Housing Credits (also known as 9 percent Housing Credits) from each state's allocation at no less than 9 percent, the amount originally envisioned when the program was created in the Tax Reform Act of 1986. This experiment proved successful—it removed the uncertainty and financial complexity of the floating rate system, simplified state administration, and facilitated development of affordable housing after HERA's enactment. However, this provision will expire for apartments placed in service after 2013. Because the Housing Credit development cycle generally takes about two years to complete, if this provision is not extended at the beginning of 2012, developments will need to be underwritten at the floating rate, which would mean a sudden and substantial reduction in the amount of equity that a development could receive for its allocation (though with no change in the amount of credits allocated). In the current budget environment where gap financing from HOME, CDBG, and other local sources are at risk, such a cut in equity would make the development of affordable housing more difficult. Making the fixed floor rate permanent would not increase the number of Housing Credits allocated, as they are capped annually. It just affects how much allocation each project may receive.

2. Make the Housing Credit floor rate for acquisition fixed at no less than 4 percent

In addition to the new construction and substantial rehab Housing Credits, states are allowed to provide Housing Credits from their capped allocation for the acquisition of existing property, an important tool for affordable housing preservation. Acquisition Housing Credits are currently set by the floating rate system just like new construction and substantial rehab Housing Credits were before HERA. Applying the fixed floor rate for acquisition Housing Credits at no less than 4 percent would similarly remove the uncertainty and financial complexity of the floating rate system, simplify state administration, and facilitate preservation of affordable housing at little or no cost to the federal government. Acquisition Housing Credits are less than 10 percent of all allocated Housing Credits according to NCSHA, so the incremental additional cost of extending the fixed floor rule to acquisition Credits would be minimal.