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

The Honorable Jeb Hensarling
2228 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
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The Honorable Blaine Luetkemeyer
2440 Rayburn House Office Building
Washington, DC 20515

The Honorable Emanuel Cleaver
2335 Rayburn House Office Building
Washington, DC 20515

April 15, 2015

Dear Chairman Hensarling, Ranking Member Waters, Subcommittee Chairman Luetkemeyer and Subcommittee Ranking Member Cleaver,

Thank you for your leadership in holding a hearing on the important issue of increasing private sector participation in affordable housing. We provide these comments on behalf of the Affordable Rental Housing ACTION (A Call To Invest in Our Neighborhoods) Campaign, a national, grassroots coalition of nearly 900 organizations and businesses dedicated to creating and preserving affordable homes for low-income families using the Low-Income Housing Tax Credit (Housing Credit) and multifamily tax-exempt private activity housing bonds (Housing Bonds). A full list of ACTION Campaign members is attached.

Private investment is a fundamental element of the Housing Credit, and one of the primary reasons for its three decades of unparalleled success in producing affordable housing. Since the Housing Credit was established as part of the Tax Reform Act of 1986, it has financed virtually all affordable rental housing in the U.S., creating or preserving over 2.7 million affordable homes by leveraging over $100 billion in private capital. The Housing Credit is "pay for performance," representing the best of public-private partnerships and ensuring a high degree of efficiency, accountability, and results, which is why it has always experienced bipartisan support. In a typical year, the program supports roughly 96,000 jobs, mostly in the small business sector, and adds approximately $3.5 billion in taxes and other revenues to local economies, according to the National Association of Home Builders.

Below we highlight several features of the Housing Credit that have made it a premier example of a public-private partnership. We encourage the House Financial Services Committee to recognize the Housing Credit's role in leveraging private resources to produce affordable housing on its own and in combination with other assistance programs, and to promote efforts to protect, strengthen and expand the Housing Credit going forward.

Public-Private Partnership

Unlike traditional direct spending programs, the Housing Credit was designed to operate through the tax code as a public-private partnership. Private sector investors provide upfront equity capital into a property in exchange for a credit against their tax liability in future years. Credits can be claimed only after properties are built and occupied by income-eligible residents at affordable rents. This unique structure transfers the real estate risk from the taxpayer to the private sector investor. State credit allocating agencies then monitor properties for compliance with program rules.

Private Sector Risk and Oversight

In the rare event that a property falls out of compliance anytime during the first 15 years after it is placed in service, the state issues a finding to the Internal Revenue Service, which will trigger a recapture of the Housing Credits from the investor. Therefore, it is in the interest of the private sector investor to ensure that properties adhere to all program rules, including income eligibility, rent limits and high quality standards. This rigorous private sector oversight is a hallmark of the program, and has contributed to its unparalleled record of achievement. In fact, only 0.62 percent of all properties during the Housing Credit's nearly 30-year history have gone into foreclosure, a record far better than any other real estate class.

Incentive to Address a Market Failure

Developing new affordable homes for the growing population of cost-burdened low-income renters is not feasible without the Housing Credit, since the rents that low-income households can afford are not high enough to cover the costs of building and maintaining properties. According to Harvard University's Joint Center for Housing Studies (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 – making the homes either substandard or financially infeasible.

A Proven Tool to Address a Vast and Growing Need

Though the Housing Credit has provided affordable homes for millions of low-income households, the unmet need for affordable rental housing continues to far outstrip the available resources. 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, leaving too little for other expenses like food, medical bills and transportation.

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, marking a 55 percent increase in this gap since 2000. The affordable rental housing crisis is expected to worsen over the coming years as more renters enter the market, and more affordable apartments are lost due to conversion to market rate, demolition or obsolescence.

Complement to Other Housing Programs

The Housing Credit is an important component of the success of other housing programs, including the Housing Choice Voucher (voucher) program, the Rental Assistance Demonstration (RAD) and the HOME Investment Partnerships (HOME) program.

Vouchers are one of the primary vehicles for providing affordable housing choices to extremely low-income families, especially in low-cost housing markets. However, vouchers are not a replacement for the Housing Credit, which expands or preserves the affordable housing stock as a long-term community asset. Likewise, the Housing Credit, as a capital subsidy, cannot on its own ensure apartments are affordable to the very lowest income renters. Housing Credits and vouchers are often used together to address complementary issues: the Housing Credit to bring down the cost of the unit on a long-term basis, and the voucher to enable that already low-cost unit to be more affordable to the lowest income tenants.

Vouchers alone cannot address several challenges for affordable rental housing, including recapitalizing and preserving aging properties, revitalizing low-income communities, expanding supply in tight markets, producing housing for households with special needs and building housing near job growth areas. However, with both vouchers and the Housing Credit, a broader range of community needs can be met.

In addition, the Housing Credit is a central component of RAD, a public housing revitalization initiative that has recently been expanded threefold from its original authorization. The Housing Credit is expected to provide roughly one-third of the equity financing to recapitalize over 180,000 units of public housing, underscoring the importance of the Housing Credit in preserving federally assisted properties for the long term in the absence of additional capital outlays.

The Housing Credit often works alongside other capital funding programs, in particular the HOME program, which provides critical gap financing in some Housing Credit properties. HOME funding allows Housing Credit properties to achieve deeper targeting goals by reducing the conventional debt on the properties. More than twenty percent of Housing Credit developments nationwide use HOME as a supplemental funding source.

Protecting, Strengthening and Expanding the Housing Credit

As the House Financial Services Committee seeks to encourage private sector involvement in affordable housing, we ask that it support efforts to protect the Housing Credit and Housing Bonds as permanent programs in the tax code as Congress considers tax reform. As stated above, without the Housing Credit there would be virtually no incentive to develop any new affordable housing. Housing Bonds play a critical role in Housing Credit production, as 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. 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.

Recognizing that 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, the ACTION Campaign also calls on Congress to increase Housing Credit resources by an amount that makes significant progress towards meeting the unmet affordable housing needs of low-income families.

Additional Housing Credit resources would make financing available for many affordable housing developments that are not built each year because of the scarcity of Housing Credits. State Housing Credit allocating agencies typically receive applications requesting two to three times as many Housing Credit resources as the agencies have to allocate, and many more developers with worthwhile development proposals do not even apply because the competition for Housing Credits is so great.

Finally, we ask that the Committee support efforts to provide state Housing Credit allocating agencies with flexibility to make the most efficient use of scarce resources. For example, we urge Committee members to cosponsor legislation (H.R. 1142) introduced by Representatives Pat Tiberi (R-OH) and Richard Neal (D-MA) that would permanently set minimum Housing Credit rates at 9 percent for new construction and rehabilitation and 4 percent for acquisition. This modification would simplify the program while providing states the flexibility to use existing resources to better meet the needs of the lowest income households at little to no cost to the federal government.

Thank you for this opportunity to provide perspective on the role played by the private sector in Housing Credit development. Please consider us a resource on any issues concerning the Housing Credit.

Sincerely,

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