STATEMENT OF THE HONORABLE PATRICK J. TIBERI
TO THE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE
HEARING ON
THE FUTURE OF HOUSING IN AMERICA:
INCREASING PRIVATE SECTOR PARTICIPATION IN AFFORDABLE HOUSING
APRIL 16, 2015

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to submit this statement to the Subcommittee in connection with your hearing on the Future of Housing in America: Increasing Private Sector Participation in Affordable Housing. I commend the Chairman and Ranking Member for holding this hearing and reviewing this very important and timely topic.

I would like to raise awareness of a critically important program that, although not within the jurisdiction of the Committee on Financial Services, is very often used to complement and strengthen a number of the affordable rental housing programs over which this Committee and Subcommittee does have jurisdiction. That program is the Low-Income Housing Tax Credit ("Housing Credit"), which is contained in Section 42 of the Internal Revenue Code of 1986 and, as you know, is under the jurisdiction of the Committee on Ways and Means, on which I am honored to serve. The Housing Credit embodies the concept that this Subcommittee is exploring today—it serves to increase private sector participation in affordable housing. Indeed, since its enactment as part of the Tax Reform Act of 1986, the Housing Credit has been the key financial tool utilized in virtually all affordable rental housing development and preservation. It is very often used in conjunction with the programs that I understand the Subcommittee is focused on today—properties which have Section 8 assistance and public housing, particularly public housing being developed under the new Rental Assistance Demonstration program. The Housing Credit has been tremendously successful precisely because of the private participation and the public/private partnerships that are at its heart.

<u>Background the Housing Tax Credit</u>

Before discussing the way in which private participation in the Housing Credit works, I would like to provide a brief background on the operation of the Housing Credit. This is a program that produces and preserves affordable rental housing—both newly constructed and existing housing which is substantially renovated—for families, seniors, veterans, the homeless, and persons with special needs, all of whom meet certain income limits and pay restricted affordable rents. The property must be maintained as affordable housing for at least 30 years, although many states require substantially longer restrictions. Although the Housing Credit is a federal income tax credit, the primary responsibility for the allocation of credits and the oversight of the properties receiving these credits is vested with each state credit allocating agency, generally the state's housing finance agency. I personally became keenly aware of the program in the early 1990s as a state legislator because of the Ohio Housing Finance Agency, who runs the program extremely efficiently and successfully in my state.

Each state is authorized to allocate federal Housing Credits, which are distributed to the states via a population-based formula (with a minimum allocation for smaller states), pursuant to a “qualified allocation plan” that the state adopts under broad federal guidelines and which is developed with public input. This decision making, given to the states under the tax code, allows each state to determine the best use of this federal support. Developers in each state compete for this resource, and most states report that the demand for such credits outstrips supply by two or three times.

Allocation decisions are transparent and subject to public scrutiny. Once awarded, developers seek investors, who are now comprised almost entirely of corporations, to invest either directly or through syndicated funds. Such investors make capital contributions, which help fund the project’s development costs, in exchange for an ownership interest in the property. That ownership interest allows the investor as a taxpayer the right to be allocated the Housing Credits which are generated by the rental property in which they are investing their capital. This capital allows property owners to reduce the amount of debt they must incur to pay for project development costs. The reduced debt service allows owners to lower rents to the level permitted under the Housing Credit and to lease units to low-income residents whose incomes qualify.

Private Sector Participation Produces Successful Housing

Before any Housing Credits are claimed by investors, the property must be fully developed or, in the case of an existing property, it must be substantially rehabilitated and it must be occupied by income-qualified residents who pay restricted rents. In this way, the investors have “skin in the game” and the development risks are borne entirely by the private sector participants and not the federal government or U.S. taxpayers. Significant recapture penalties apply for fifteen years in the event of non-compliance with the income, rent, habitability or other program rules although the credit itself is claimed over a ten year credit period. States are required to monitor compliance throughout the fifteen year compliance period.

Investors, which are, for the most part, financial institutions, bring tremendous business discipline to the underwriting and ongoing oversight of these properties. Quite simply, investors want two things: 1) the benefit of the bargain they are making—they invest significant capital and they expect to receive federal income tax credits with a modest return on their investment, and 2) they do not want to invest in failed projects or ones that are not maintained to proper standards. To accomplish these goals and to protect their investments, investors conduct thorough underwriting and due diligence at the outset and maintain vigorous asset management throughout their ownership, which is typically at least 16-18 years after acquiring an interest in the property. Their ongoing oversight complements the statutorily required monitoring conducted by state credit allocating agencies.

The results have exceeded Congressional expectations when the Credit was first enacted. Over its lifetime, financing from the Housing Credit has constructed or substantially rehabilitated over 2.7 million affordable rental homes for low-income residents with a foreclosure rate of less than 0.62 percent over its nearly 30-year history, far less than market rate rental properties and other real estate assets, according to a recent report issued by the national accounting firm CohnReznick LLP. Housing Credit compliance rates have been very high. The Joint Center for Housing Studies at Harvard University has termed the Housing Credit the most successful federal rental housing program in the nation’s history. Because it is the most important capital resource for affordable rental housing and has worked in conjunction with many of the affordable housing programs authorized by the Financial Services Committee, it has served to improve the performance of those programs.

The private sector financial markets for Housing Credits have been strong during almost all of the program's life and have rebounded substantially from the dislocation that occurred when two of the industry's biggest investors, comprising about 40 percent of the market, Fannie Mae and Freddie Mac, suddenly left the market almost seven years ago. The Housing Credit now raises more than $10 billion in private investment annually. This amount of capital that is contributed in exchange for such credits, which is driven by market forces generally, has also greatly contributed to the efficiency of the program.

Conclusion

The Housing Credit has enjoyed wide bipartisan support since its enactment in Congress and among successive presidents. I am proud to have taken a leadership role in supporting this program in the House of Representatives. I am also pleased to have been joined by my colleague Congressman Richard Neal from Massachusetts in introducing H.R. 1142, which would make permanent the rates which are a part of the formula that determines the amount of private investment available for each property, and by 48 of my colleagues on both sides of the aisle, including seven Members of the Financial Services Committee. I would urge my colleagues to visit a Housing Credit development in your district. My experience has been that seeing is believing; this housing has transformed the lives of its residents and has revitalized communities all over my district and I am confident you will find the same results in your districts as well.

I would urge the Subcommittee to take the lessons learned from this highly successful program in determining how to best increase private participation in the affordable housing programs under your jurisdiction.

Once again, thank you for this opportunity to present my views. I would be happy to answer any questions that you may have.