LOW-INCOME HOUSING TAX CREDIT RATES

WHAT ARE HOUSING CREDIT RATES?

The Low-Income Housing Tax Credit (Housing Credit) provides an incentive for the private sector to develop affordable rental housing for low-income families by offsetting a portion of development costs. The amount of Housing Credit equity that a development is eligible to receive is determined in part by the Housing Credit rate.

There are two types of Housing Credits: one that covers 70% present value (PV) of eligible costs for new construction and substantial rehabilitation, and one that covers 30% PV of the costs of acquiring existing properties or developing properties using tax-exempt bonds. Congress originally set the rates for these credits at 9% and 4% respectively. Since then, a formula tied to federal borrowing rates has been used to calculate credit rates that yield 70 or 30% PV over the 10-year credit period. These are known as the "floating rates" because they are recalculated each month.

In 2008, Congress established a temporary minimum 9% rate, which has been extended twice but is now expired. Floating rates are again in effect, making it more difficult to finance affordable housing.

WHAT ARE THE PROBLEMS WITH THE FLOATING RATE?

UNCERTAINTY. The floating rate changes monthly, making the underwriting of Housing Credit developments unnecessarily complicated.

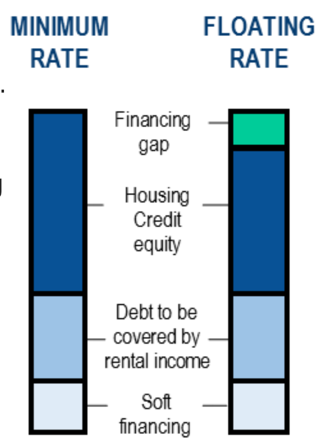
FINANCING GAPS. Historically low federal borrowing rates have resulted in historically low Housing Credit rates. As a result, there is less Housing Credit equity available for individual developments, creating gaps between the financing available and the actual development costs.

There are few options for filling these gaps.

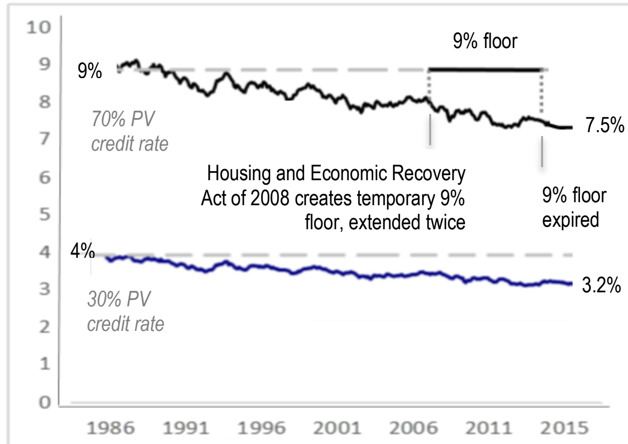
Developers can apply for more 'soft' financing like HUD's HOME and CDBG programs, but these sources are becoming scarcer each year.

They can increase the amount of debt covered by rental income, but that means fewer (or no) apartments will be affordable to the lowest-income households.

Some high-priority developments may simply become impossible to finance.



HOUSING CREDIT RATES OVER TIME



Source: Congressional Research Service analysis of data from Novogradac & Company LLP

A Housing Credit development financed in 2015 has 15 to 20% less Housing Credit equity available than one financed in 2013.

WHAT ARE THE BENEFITS OF MINIMUM HOUSING CREDIT RATES?

- Provide predictability and simplicity
- Make more Housing Credit developments financially feasible
- Give states more discretion to finance high-priority affordable housing developments that require more subsidy, like developments for veterans or formerly homeless people
- Strengthen the Housing Credit at virtually no cost to taxpayers

The ACTION Campaign calls on Congress to:

- **Permanently extend the minimum 9% rate for new construction and substantial rehabilitation**
- **Establish a permanent minimum 4% rate for the acquisition of affordable housing**
- **Pass forward-looking multi-year tax extenders legislation that includes minimum 9 and 4% credit rates**
- **Support permanent minimum Housing Credit rate legislation: S. 1193 and H.R. 1142**

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

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