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

Testimony for the Record

Senate Transportation, Housing and Urban Development, and Related Agencies Subcommittee Hearing: "Housing Vulnerable Families and Individuals: Is There a Better Way?"

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On behalf of the Affordable Rental Housing ACTION (A Call To Invest in Our Neighborhoods) Campaign—a national, grassroots coalition of over 1,300 organizations and businesses dedicated to creating and preserving affordable homes for low-income families using the Low-Income Housing Tax Credit (Housing Credit)—we appreciate the opportunity to submit comments to the Senate Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies on the occasion of its hearing on Housing Vulnerable Families and Individuals. A full list of ACTION Campaign members is attached.

A Proven Tool to Address a Vast and Growing Need

The Housing Credit is our nation's most successful tool for encouraging private investment in the production and preservation of affordable rental housing. Since 1986, the Housing Credit has financed nearly 3 million apartments, providing roughly 6.7 million low-income families, seniors, veterans, people with disabilities, and other vulnerable populations with access to homes they can afford.

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 11.4 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.

Meanwhile, we continue to lose affordable housing from our nation's stock. Nearly 13 percent of the nation's supply of low-income housing has been permanently lost over the past 15 years. Over the next decade, the demand for affordable housing will become even greater as 400,000 new households enter the rental housing market each year, many of whom will be low-income. According to a recent study by Harvard University's Joint Center for Housing Studies and Enterprise Community Partners, the number of renter households who pay more than half of their income towards rent could grow to nearly 15 million by 2025.

A Model Public-Private Partnership

For 30 years, the Housing Credit has been a model public-private partnership program, bringing to bear market forces, state-level administration and more than $100 billion in private sector resources. Under the program, 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.

The Housing Credit also benefits from state-level administration, which reflects local priorities. Each state determines how to allocate Housing Credits to respond to specific local needs, directing resources where they are needed most. State allocating agencies also oversee a rigorous approval process for these developments and monitor properties for compliance with program rules after their completion.

Each state is required by the tax code to provide only enough subsidy to ensure financial feasibility, and underwrite Housing Credit properties at three different stages of the development process to ensure they provide no more Housing Credit than necessary to each development.

Accountability through the Tax Code

In the rare event that a property falls out of compliance anytime during the first 15 years after it is placed in service, the Internal Revenue Service is able to recapture tax credits from the investor. Therefore, it is in the interest of the private sector investors 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 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.

Complement to Other Housing Programs

Congress designed the Housing Credit as a project-based capital funding source for the production and preservation of affordable housing. As such, the Credit plays a different role in the effort to meet the nation's affordable housing needs than tenant-based rental assistance programs, such as the Housing Choice Voucher (voucher) program, play. The Housing Credit increases the supply of affordable housing, while vouchers make existing housing more affordable to low-income households.

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 areas experiencing job growth. Furthermore, absent the Housing Credit program, the cost of vouchers would almost certainly rise significantly, as voucher holders living in Housing Credit properties would instead need to find market-rate apartments.

Conversely, without rental assistance, it can be very difficult to provide even Housing Credit housing at rents affordable to the lowest-income households. In practice, the Housing Credit and vouchers complement each other, and are often used together to meet the needs of extremely low-income households.

In addition, the Housing Credit is a central component of HUD's Rental Assistance Demonstration (RAD), a public housing revitalization initiative that Congress has recently expanded threefold from its original authorization. To date, the Housing Credit has provided approximately 40 percent of the financing being used to recapitalize over 180,000 units of public housing under RAD, underscoring the importance of the Housing Credit in preserving federally assisted properties for the long term in the absence of sufficient federal appropriations for public housing.

Support the Affordable Housing Credit Improvement Act

Though the need for Housing Credit-financed housing has long vastly exceeded its supply, Congress has not increased Housing Credit authority in 16 years. To make a meaningful dent in the affordable housing supply gap, we urge Congress to pass the Affordable Housing Credit Improvement Act, sponsored by Senator Maria Cantwell (D-WA) and Senate Finance Committee Chairman Orrin Hatch (R-UT), which would increase Housing Credit authority by 50 percent. While the bill is not under the jurisdiction of this Subcommittee, we encourage all Subcommittee members to join Subcommittee Chairwoman Susan Collins (R-ME), Subcommittee member Senator Bill Cassidy (R-LA), and full Committee members Senators Patrick Leahy (D-VT), Lisa Murkowski (R-AK), and Jeff Merkley (D-OR) as cosponsors of the bill.

For the millions of families paying more than half of their income towards housing – choosing between paying the rent or their medical bills, making repairs to their cars, or enrolling in job training classes – protecting and expanding the Housing Credit is critical.