HOUSING CREDIT AND HOUSING BOND PROGRAMS AND RURAL HOUSING

Rural housing is dependent on several sources of funding for construction and preservation of the existing housing stock. The Low-Income Housing Tax Credit (Housing Credit) program is a vital source for this important housing. The Housing Credit program has worked successfully since its creation in 1986. It bridges the gap between what the market provides and what the market demands. Housing Credits may be awarded through certain tax-exempt multifamily housing bonds (Housing Bonds) or separately as a direct award.

- Rural housing construction and preservation projects have access to only a few funding sources.

- The Housing Credit program is a vital source for this important housing. The Housing Credit is narrowly targeted and represents the best of the public-private partnership between government, local communities and the private sector.

- CARH believes it is critical that both the Housing Credit and Housing Bond programs continue. CARH also believes that legislative changes be made that would both strengthen and expand these two important programs, so that rural housing preservation and new construction can continue.

- CARH supports S. 548, the Affordable Housing Improvement Act of 2017, introduced by Senators Maria Cantwell (D-WA) and Orin Hatch (R-UT). The legislation would provide for enhancements to the housing credit program. Similar, but not identical legislation (H.R. 1661) has been introduced in the House of Representatives by Representatives Pat Tiberi (R-OH) and Richard Neal (D-MA).

- The need for Housing Credit-financed housing has long vastly exceeded its supply. Congress has not increased Housing Credit authority in 17 years. To make a meaningful dent in the affordable housing supply gap, we urge Congress to increase the cap on Housing Credit authority by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over a ten-year period.

- Income averaging is also needed for many housing credit properties. While the program has rigorous targeting, allowing income averaging for residents would provide more flexibility and responsiveness to local needs.

- Acquisition credits are currently set by the floating rate system just like new construction and substantial rehab credits were before the Housing and Economic Recovery Act (HERA) of 2008. Providing for a fixed floor rate for acquisition credits at no less than 4 percent and should 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 credits are less than 10 percent of all allocated credits, so the incremental additional cost of extending the fixed floor rule to acquisition credits would be minimal.

- Providing up to a 50 percent basis boost of Housing Credits for developments serving extremely low-income families and individuals in at least 20 percent of the units as well as allowing states to provide up to a 30 percent basis boost for Housing Bond-financed properties will provide parity between Housing Bond-financed developments and those that use allocated Housing Credits.

Housing Credit and Housing Bond Programs and Rural Housing

Background

The Council for Affordable and Rural Housing (CARH) represents the interests of builders, developers, managers and suppliers of affordable rural housing throughout the country. Affordable rental housing issues affect residents and a broad array of local government, non-profit and for-profit participants working together in partnership. The need for affordable housing persists and it cannot be adequately addressed except through current delivery mechanisms, developed and made more efficient over decades of providing affordable housing. In rural areas throughout the country, there continues to be an even more acute need for affordable and decent housing. Rural renters are more than twice as likely to live in substandard housing compared to people who own their own homes. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has decreased.

Rural housing is dependent on several sources of funding for construction and preservation of the existing housing stock. The Low-Income Housing Tax Credit (Housing Credit) program is a vital source for this important housing. The Housing Credit program has worked successfully since its creation in 1986. It bridges the gap between what the market provides and what the market demands. In short, America's elderly, working families, civil servants and working poor seek to live in or near their jobs, families and communities. In most of America this need cannot be met. Homeownership is out of reach or not financially viable. Indeed, the cost of providing any new housing or rehabilitating existing housing to current standards without public-private assistance is too expensive for most low-income Americans. The Housing Credit program allows multi-family housing providers to utilize cost effective, energy-efficient housing developments to meet this need. The program also allows non-profit and for-profit companies to work together with local and state governments to raise private equity and put it to use bridging the financial gap. The savings are passed on to the residents in the form of affordable rental housing.

When the Housing Credit program was enacted as part of the Reagan-era Tax Reform Act of 1986, it did not create a large new bureaucracy. Instead, it uses a small policy-setting staff at the Internal Revenue Service to coordinate funding to states which, in turn, works with either state Housing Finance Agencies or local agencies, depending on the local choices. These state and local agencies rigorously inspect and asset-manage, but their job is made easier by the private investment system. Housing Credit investors are strongly motivated to require project operators and managers to comply with housing requirements, even before government inspections. Housing Credits may be awarded through certain tax-exempt multifamily housing bonds (Housing Bonds) or separately as a direct award.

Issues and Recommendations

Since its inception, the Housing Credit program has created homes for approximately 2.4 million families. For each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue. This important housing resource creates a positive, broad-based economic benefit that includes jobs (particularly construction jobs), income and taxes in industries such as manufacturing, trade, and services, in addition to construction. Income includes business profits as well as wages and salaries paid to workers. Affordable housing not only creates jobs directly, but facilitates job growth. Affordable housing shortages prevent workers from meeting job demand in rural areas with limited housing options.

Rural housing construction and preservation projects have access to only a few funding sources. The Housing Credit program is a vital source for this important housing. The Housing Credit is narrowly targeted and represents the best of the public-private partnership between government, local communities and the private sector. The program is the most successful affordable rental housing production program and its place in the tax credit code is an essential part of its long-term success. Indeed, Housing Credit has been so successful that it has become the model for subsequent programs.

CARH believes it is critical that both the Housing Credit and Housing Bond programs continue. CARH also believes that legislative changes should be made that would both strengthen and expand these two important programs so that rural housing preservation and new construction can take place. S. 548, the Affordable Housing Credit Improvement Act of 2017, introduced by Senators Maria Cantwell (D-WA) and Orrin Hatch (R-UT) is a comprehensive bill that would provide these enhancements.

The legislation would help facilitate efforts to preserve and construct new rural properties throughout the country through the following changes to the Housing Credit and Housing Bond programs:

- The need for Housing Credit-financed housing has long vastly exceeded its supply. Congress has not increased Housing Credit authority in 17 years. To make a meaningful dent in the affordable housing supply gap, the cap on Housing Credit authority would be increased by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over a ten-year period.

- Permit income averaging in Housing Credit properties. This provision would preserve rigorous targeting while providing more flexibility and responsiveness to local needs.

- Base income limits in rural properties on the greater of area median income or the national non-metropolitan median income. This would make Housing Bond financed developments more feasible in rural areas while streamlining program rules.

- Simplify the current Housing Credit student rule and better achieve the intended targeting by replacing it with a new rule that is aligned with the Department of Housing and Urban Development's (HUD) rule, which would simplify multiple subsidy compliance.

- In addition to the new construction and substantial rehab 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 credits are currently set by the floating rate system just like new construction and substantial rehab credits were before the Housing and Economic Recovery Act (HERA) of 2008. The proposed legislation would provide for a fixed floor rate for acquisition credits at no less than 4 percent and should 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 credits are less than 10 percent of all allocated credits, so the incremental additional cost of extending the fixed floor rule to acquisition credits would be minimal.

- Providing up to a 50 percent basis boost of Housing Credits for developments serving extremely low-income families and individuals in at least 20 percent of the units as well as allowing states to provide up to a 30 percent basis boost for Housing Bond-financed properties will provide parity between Housing Bond-financed developments and those that use allocated Housing Credits.

CARH strongly supports S. 548. Similar legislation (H.R. 1661) introduced in the House of Representatives on March 21, 2017, by Representatives Pat Tiberi (R-OH) and Richard Neal (D-MA), does not include the 50 percent phased-in Housing Credit. CARH is supportive of both pieces of legislation but will continue to encourage the inclusion of a cap increase in any final tax legislation that advances through Congress.