The Low-Income Housing Tax Credit
Building & Preserving Affordable Housing
Outline:

1. The Need for Affordable Housing
2. Tools to Address the Need
3. How the Housing Credit Works
4. The Affordable Housing Credit Improvement Act (AHCIA)
The Need for Affordable Housing

Not enough affordable homes are available for low-income households

For every

100

extremely low-income households making 30% of area median income or less,

only 37 homes are affordable and available

For every

100

very low-income households making 50% of area median income or less,

only 58 homes are affordable and available

Source: National Low Income Housing Coalition, “The Gap: A Shortage of Affordable Rental Homes,” 2019

* Extremely Low-Income: Households with income at or 30% of area median income or below the Poverty Guideline, whichever is higher
Only 1 in 5 households eligible for federal housing assistance receives it.

Source: Urban Institute, “The Case for More Not Less,” 2018
The Need for Affordable Housing

MORE THAN 10 MILLION U.S. HOUSEHolds spend more than half of their monthly income on rent, cutting into other essential expenses such as groceries and healthcare.

Rent burden occurs when you spend more than 30% of your income on housing. You have to start making hard life choices – ex. medicine or food

Source: Harvard University Joint Center for Housing Studies, “State of the Nation’s Housing,” 2019
99 HOURS PER WEEK AT MINIMUM WAGE
are required to afford a one-bedroom apartment at the national average fair-market rent.

Source: National Low Income Housing Coalition, “Out of Reach,” 2019
The Benefits of Affordable Housing

In general, affordable housing...

- Leads to better health outcomes
- Keeps families together
- Reduces domestic violence
- Reduces substance abuse
- Helps low-income individuals gain employment and keep their jobs*
- Improves educational outcomes
- Allows for residents to increase their discretionary income by an average of $500 per month (the equivalent to a 30 percent raise**)

** Enterprise and Local Initiatives Support Corporation, “Affordable Housing for Families and Neighborhoods,” 2017
## Tools to Address the Need for Affordable Housing

<table>
<thead>
<tr>
<th>Program</th>
<th>Households</th>
<th>Agency</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Section 8 Housing Choice Vouchers</strong></td>
<td>2.2. million households</td>
<td>HUD</td>
<td>Voucher covers difference between 30% of tenant income and fair market rent in the private market</td>
</tr>
<tr>
<td><strong>Project-Based Section 8 Rental Assistance</strong></td>
<td>1.2 million homes</td>
<td>HUD</td>
<td>Voucher covers difference between 30% of tenant income and fair market rent at a specific property</td>
</tr>
<tr>
<td><strong>Public Housing</strong></td>
<td>1.1 million homes</td>
<td>HUD</td>
<td>Federally owned and operated developments that charge 30% of tenant income in rent</td>
</tr>
<tr>
<td><strong>Section 515 Rural Rental Housing Loans</strong></td>
<td>550,000 homes</td>
<td>USDA</td>
<td>USDA provides loans for affordable rural rental housing</td>
</tr>
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# Tools to Address the Need for Affordable Housing

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<td>Section 202 Supportive Housing for the Elderly</td>
<td>400,000 homes</td>
<td>HUD</td>
<td>HUD provides funds to nonprofits to build rental housing affordable to low-income elderly households</td>
</tr>
<tr>
<td>Section 521 Rural Rental Assistance</td>
<td>270,000 homes</td>
<td>USDA</td>
<td>Similar to project-based assistance, but for properties receiving Section 515 loans</td>
</tr>
<tr>
<td>Section 811 Supportive Housing for Persons with Disabilities</td>
<td>33,000 homes</td>
<td>HUD</td>
<td>HUD provides funds to nonprofits to build rental housing affordable to low-income people with disabilities</td>
</tr>
<tr>
<td>Low-Income Housing Tax Credit</td>
<td>3.2 million homes</td>
<td>Treasury</td>
<td>Tax credit incentivizes private investment to develop and preserve affordable housing</td>
</tr>
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Impact of the Low-Income Housing Tax Credit since 1986

- More than **3.2 million affordable homes** financed
- More than **7.4 million low-income households** served
- **3.6 million jobs** supported for one year
- **$135 billion in tax revenue** generated
- **$ 344 billion in wages and business income** generated

The Affordable Housing Credit Improvement Act

The Low-Income Housing Tax Credit

A proven tool for financing the development and preservation of safe, decent, and affordable housing
The Low-Income Housing Tax Credit

1. The U.S. Government allocates credits to State Housing Agencies based on population.
2. State Housing Agency awards credits to developers.
3. Developer builds Low-Income Housing Tax Credit Property.
4. Developer exchanges credits for equity for project.
5. Syndicator raises capital from investors.
6. Investors receive credits for 10 years in exchange for equity capital.
7. Low-income tenants have access to homes they can afford.
The Affordable Housing Credit Improvement Act

Equity from private investors reduces debt, allowing for affordable rents

**Market Rate Real Estate**
- **20% Equity** (Down Payment)
- **80% Debt**
  - Market-Rate Rents cover servicing of debt and expenses

**Housing Credit Properties**
- **70% Equity** (LIHTC Derived)
- **10% Gap Funds**
- **20% Debt**
  - Affordable Rents possible to cover debt.
    - Tenants must be low-income
    - Rent cannot be more than 30% of income limit of home
The Affordable Housing Credit Improvement Act

The Low-Income Housing Tax Credit

The amount of equity that goes into a project is determined in part by the Housing Credit Rate

Total Housing Credits are determined by:
Eligible Costs x Housing Credit Rate

Total Housing Credit equity for a project is determined by:
Total Housing Credits x Market Price for Credits

LIHTC Properties

70% Equity LIHTC Derived

10% Gap Funds

20% Debt
The Low-Income Housing Tax Credit

Two sides of the program: “9 Percent” and “4 Percent”

9 Percent Housing Credit
- Minimum 9% Housing Credit rate
- Deeper subsidy; covers approximately 70% of eligible costs
- For new construction and substantial rehabilitation

4 Percent Housing Credit
- Based on formula tied to fluctuating federal borrowing rates
- Shallower subsidy; Congress intended for it to cover approximately 30% of eligible costs
- For the acquisition of existing properties and new development or rehabilitation in conjunction with tax-exempt private activity bonds
The Low-Income Housing Tax Credit

The Housing Credit serves predominately extremely low- and very low-income households

44% of Housing Credit households are **extremely low-income** households making 30% of area median income or less

34% of Housing Credit households are **very low-income** households making 30.1 to 50% of area median income

Source: HUD, “Understanding Whom the LIHTC Serves,” 2018
The Affordable Housing Credit Improvement Act

2016
AHCIA first introduced by Sens. Maria Cantwell (D-WA) and Orrin Hatch (R-UT)

2017
AHCIA reintroduced by Sens. Maria Cantwell and Orrin Hatch, first introduced in House by Reps. Pat Tiberi (R-OH) and Richard Neal (D-MA)

2018
12.5 percent Housing Credit allocation increase for four years (2018 – 2021) and income averaging enacted in Consolidated Appropriations Act of 2018

June 4, 2019
AHCIA reintroduced:

- S. 1703: Senators Maria Cantwell (D-WA), Todd Young (R-IN), Ron Wyden (D-OR), and Johnny Isakson (R-GA)
- H.R. 3077: Representatives Suzan DelBene (D-WA), Kenny Marchant (R-TX), Don Beyer (D-VA), and Jackie Walorski (R-IN)
The AHCIA of 2017 was cosponsored by more than 40 percent of the 115th Congress.
The Affordable Housing Credit Improvement Act

Increasing Production

- **50 percent allocation** increase phased in over five years
  - Estimated **384,455 additional homes** could be financed

- **4 percent minimum** Housing Credit rate
  - At least **66,000 additional homes** could be financed

- **Strengthen Multifamily Housing Bond recycling**
  - At least **100,000 additional homes** could be financed

Source: Novogradac & Company
The Affordable Housing Credit Improvement Act

Serving Hard-to-Reach Areas and Populations

- **Rural areas**
  - Basis boost for developments in rural areas
  - Standardize income eligibility for rural areas

- **Native American communities:**
  - Basis boost for developments in Native American areas
  - Native American selection criteria
The Affordable Housing Credit Improvement Act

Serving Hard-to-Reach Areas and Populations

- **Veterans of the Armed Forces:**
  - Clarify that veterans are exempt from the general public use rule for Multifamily Housing Bond properties

- **Extremely low-income households:**
  - 50 percent basis boost for apartments for ELI tenants
Preserving Affordable Housing

- **Right of First Refusal (ROFR):**
  - For new properties, replace the existing ROFR with a purchase option
  - Clarify options for acquiring properties and definition of property

- **Strengthen protections** against planned foreclosures

- Capitalize tenant **relocation costs**

- Flexibility around **existing tenant income**
Streamlining, Simplification, and Good Governance

- Simplify and better align the Housing Credit’s student housing rule with HUD’s rule
- Better align the Housing Credit with the Violence Against Women Act
- Add income averaging option as a third minimum set-aside option for Multifamily Housing Bond properties
- Add a selection criteria for cost reasonableness
The Affordable Housing Credit Improvement Act

550,000 more affordable homes than would otherwise be possible will be built or preserved across the U.S. over the next decade.

Source: Novogradac & Company
Resources

AHTCC Resources
- Award winning LIHTC Properties: http://www.taxcreditcoalition.org/awards
- Gallery of LIHTC Properties: http://www.taxcreditcoalition.org/galleries

A Call To Invest in Our Neighborhoods (ACTION) Campaign Resources
- AHCIA one-page overview, summary of all provisions, and explanation of differences between the 115th and 116th Congress versions: http://rentalhousingaction.org/advocacytoolkit
- National, state, and district fact sheets: http://rentalhousingaction.org/state-district
- Research and reports: http://rentalhousingaction.org/research-and-reports-1

Novogradac & Company Resources
Contact

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@AHTCCCoalition
The Affordable Housing Tax Credit Coalition
a trade association of housing professionals who advocate in support of the Low-Income Housing Tax Credit

Our nearly 200 members, including developers, investors, syndicators, professional organizations, state allocating agencies, public agencies, associations and coalitions, have supported the provision of affordable housing in every state and U.S. territory

Our 23 syndicator members have facilitated financing for more than one and a half million affordable homes, one-half of all Housing Credit homes

Our 59 developer members have developed more than half a million affordable homes, one-sixth of all homes developed using the Housing Credit