

Housing Credits

State agencies award Housing Credits to housing developers, who turn the Credits into construction funds by selling them to investors. These funds allow developers to borrow less money and pass through the savings in lower rents for low-income tenants.

Investors, in turn, receive a ten-year tax credit based on the cost of constructing or rehabilitating apartments that cannot be rented to anyone whose income exceeds 60 percent of area median income.

The Housing Credit accounts for most of the country's new rental housing affordable to low-income people. By providing an incentive for private sector investment, the Housing Credit has helped finance more than 2.4 million apartments for low-income families since Congress created it in 1986. The Housing Credit helps finance more than 100,000 more apartments each year.

Each state's annual Housing Credit allocation is capped. Congress in 2000 increased the cap by 40 percent and indexed it to inflation. In 2008, Congress provided states an additional 20 cents per capita in Housing Credit for 2008 and 2009 and increased the small-state minimum by 10 percent. The 2010 cap is \$2.10 times state population, with a state minimum of \$2,430,000.

In 2009, the American Recovery and Reinvestment Act (ARRA) established two new programs providing state Housing Credit allocating agencies with new tools to support Housing Credit-financed rental housing—the \$2.25 billion Tax Credit Assistance Program (TCAP), administered by HUD, and authority to exchange Housing Credits for cash (the Exchange program), administered by Treasury.

State agencies allocate Housing Credits to developments they select pursuant to qualified allocation plans (QAPs) they develop that identify the type, location, and other characteristics of affordable housing needed throughout the state. The plans must describe the criteria agencies will apply in allocating the Credit.

State agency scrutiny and private sector oversight are hallmarks of the Housing Credit program. States put each development through three separate, rigorous evaluations to make sure it receives only enough Housing Credit to make it viable as low-income housing for the long term.

The majority of Housing Credit properties are dedicated to low-income use for periods longer than 30 years, and many are permanently dedicated to low-income use.

The private sector discipline imposed on Housing Credit developments, from site selection to compliance monitoring – under threat of severe tax penalty – is an unprecedented departure from previous federal housing programs and an essential element of the program's success.