

The Housing Credit

The Housing Credit program was created by Congress in the Tax Reform Act of 1986. Under the program, state agencies award Housing Credits to developers, who then sell the Credits to private investors in exchange for funding for the construction and rehabilitation of affordable housing. 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 (AMI).

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.

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. Each state's 2011 Housing Credit authority will be the greater of \$2.15 per capita and \$2,465,000, up from \$2.10 per capita and \$2,430,000 in 2010.

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 its creation twenty-five years ago. Adding to the inventory of affordable rental housing, the Credit helps finance more than 100,000 apartments each year.

To address the impact of the housing market collapse and the resulting decrease in investor participation, Congress established in 2009 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. Both programs have now expired. Private investors are showing increased interest in purchasing Housing Credits, and the price of Credits is stabilizing and, in some areas, increasing.

The Obama Administration's FY 2012 Budget includes two Credit proposals. One would allow Credit-assisted apartments to serve families with incomes above 60 percent of AMI, as long as at least 40 percent of the units in a development average not greater than 60 percent of AMI. None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent. Under current law, developments qualifying for the Housing Credit must meet one of two income tests—either 20 percent of a development's units must be affordable to individuals whose income is 50 percent or less of AMI or 40 percent of a development's units must be affordable to individuals whose income is 60 percent or less of AMI.

The Administration also proposes to allow a 30 percent "basis boost" for Housing Credits for tax-exempt bond-financed developments involving the preservation, recapitalization, and rehabilitation of federally financed housing that is subject to a long-term use agreement limiting occupancy to low-income households. Current law permits a 30 percent basis boost for developments located in qualified census tracts (QCT) or difficult to develop areas (DDAs) and for buildings designated by the state allocating agencies as requiring the basis boost for financial feasibility, unless any portion of the building is financed by tax-exempt bonds subject to volume cap.

Under the Administration's proposal, the basis boost for bond-financed preservation developments would be limited in each state to developments assisted by a total amount of tax-exempt bonds that could not exceed 0.4 percent of the state's volume cap for the calendar year in which the bonds are issued (regardless of which year's volume cap is taken into account in issuing the bonds). Each state's Housing Finance Agency (HFA) would determine which developments receive the boost.