Statement of the
National Council of State Housing Agencies
to the House Ways and Means Committee
in Response to its Hearing on
How Tax Reform Will Grow Our Economy and Create Jobs
June 1, 2017

On behalf of our Housing Finance Agency (HFA) members, the National Council of State Housing Agencies (NCSHA) appreciates this opportunity to provide comments to the Ways and Means Committee on how the Committee can further strengthen proven housing resources—specifically the Low Income Housing Tax Credit (Housing Credit) and tax-exempt private activity Housing Bonds (Housing Bonds)—to help grow the economy, create jobs, and improve the lives of households across the nation. These critical programs, which HFAs administer in virtually every state, are essential to our nation's ability to develop affordable rental housing and provide homeownership opportunities to people of modest means.

NCSHA is a nonprofit, nonpartisan organization created by the nation's state HFAs more than 40 years ago to coordinate and leverage their federal advocacy efforts for affordable housing. HFAs are governmental and quasi-governmental, nonprofit agencies created by their jurisdictions to address the full spectrum of housing need, from homelessness to homeownership. HFAs effectively employ the Housing Credit and Housing Bonds, entrusted by Congress to state administration, to advance their common public-purpose mission of providing affordable housing to the people of their jurisdictions who need it. These indispensable financing tools contribute more significantly to HFA efforts to create housing, community, and economic opportunity than any other federal housing resources.

Affordable Housing: A Vital Part of a Pro-Growth Tax Code

Congress is embarking upon one of the most significant and challenging endeavors of recent decades—reform of the federal tax code. NCSHA understands there is bipartisan agreement that the current system is outdated, overly complicated, and not optimally structured to promote economic growth. We supports the Committee's plan to examine all aspects of the current code as it seeks to reform the tax system.

The use of the tax code to provide affordable housing—both through the production and preservation of affordable rental properties with the Housing Credit and multifamily Housing Bonds and through the provision of lower-cost mortgages for working families with single-family Housing Bonds (under the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs)—has been one of the singular successes of the current system. Since the Housing Credit's establishment in the Tax Reform Act of 1986, it has financed roughly 3 million affordable rental homes for low-income families, seniors, veterans, and those with special needs.

Approximately 40 percent of those rental homes rely on financing from multifamily Housing Bonds and would not exist were it not for those bonds. HFAs finance still more affordable rental housing with multifamily Housing Bonds alone.

Using MRBs, state HFAs have helped over 3.1 million working families purchase a home for the first time. HFAs typically help about 75,000 families achieve this milestone each year. MRBs represent about the only hope for creditworthy families with modest incomes and limited resources to achieve homeownership. Moreover, they allow HFAs to serve as constant, reliable sources of flexible, affordable mortgage money for lower-income first-time home buyers, anchoring the first-time home buyer market.

The Housing Credit and Housing Bond programs are highly successful public-private partnerships that combine state HFAs' sophisticated underwriting, asset management, and oversight capacity with private sector expertise and investment. Without question, the Housing Credit and Housing Bonds are the most effective means of targeting limited affordable housing resources to the people and places that need them, while transferring risk to private sector investors.

Most importantly, the Housing Credit and Housing Bond programs make immeasurable investments in people and places. They transform lives by creating quality and sustainable living environments that lift up families; help children thrive; support seniors, people with special needs, and veterans; and permanently house persons experiencing homelessness. They contribute to community revitalization by inspiring business growth, infrastructure advances, transportation solutions, and much more.

These programs also have an enormous impact on local economies through the creation of jobs and generation of tax revenue. The Housing Credit supports approximately $3.5 billion in federal, state, and local taxes; $9.1 billion in wages and business income; and 95,700 jobs across various U.S. industries every year. The National Association of Home Builders estimates that in its first year, a typical 100-unit Housing Credit property on average provides $8.7 million in additional wages for local workers and business profits; creates $3.3 million in additional federal, state, and local tax revenue; and supports 116 jobs.

Housing Bonds also have a profound economic impact. According to models formulated by the National Association of Home Builders and the National Association of REALTORS®, in the 10-year period from 2006 to 2015, state HFA MRB homeownership programs generated almost 50,000 jobs annually. Multifamily Housing Bonds also spur important economic growth. Over the same period of time, state construction and rehabilitation of apartments financed with HFA multifamily Housing Bonds generated approximately 27,000 jobs and added over $2 billion to GDP annually on average

The Growing Housing Need Exacts an Economic Toll

Unfortunately, while the Housing Credit and Housing Bond programs are extraordinarily successful, the resources devoted to them are woefully insufficient to meet the nation's affordable housing need, which is great and growing. In fact, we are losing ground in this battle as needs grow and resources shrink at rapid rates.

Currently, 40 million U.S. households—more than one in three—pay an excessive share of their income for housing. The crisis is most acute for those earning the least. Of those households with incomes of $15,000 or less annually—approximately equivalent to working full-time at the minimum wage—four in five pay more than 30 percent of their income for housing. Two-thirds pay over 50 percent. This leaves little money left over for other critical necessities like food, transportation, childcare, healthcare, and utilities.

The housing crisis affects both homeowners and renters. For many low- and moderate-income borrowers, purchasing a home is by far their best opportunity to build up savings, yet these families face significant challenges as they seek to achieve homeownership. Even as the housing market strengthens, many creditworthy home buyers, especially first-time buyers, struggle to obtain mortgages they can afford. According to the National Association of REALTORS®, first-time home buyers accounted for just 30 percent of all home sales in the past three months, compared to the historical average of 40 percent.

As more and more people turn to the rental market, they find a severe shortage of affordable homes. Those available to extremely low-income (ELI) households, those earning 30 percent or less of Area Median Income (AMI), are especially scarce. Since 2000, the rental housing shortfall for ELI renters—measured as the gap between the number of ELI renters and the number of units available and affordable to them—has grown by 57 percent. The rental shortage is exacerbated as hundreds of thousands of new renter households enter the market each year, while the nation loses countless affordable units from the housing stock due to conversion to market rate rentals or condominiums, demolition, or obsolescence.

The success of affordable housing programs is most easily measured by the number of units created and preserved each year and the number of households served. But, these metrics do not begin to measure the impact affordable housing has on those families and the economic benefits it brings to society at large. Conversely, without affordable housing, everyone suffers.

Affordable housing is the foundation of an economically vibrant country. Housing stability creates better health outcomes, improves children's school performance, and can help low-income individuals gain employment and keep their jobs. The Housing Credit and Housing Bonds provide families with greater economic stability and more discretionary income than low-income families who are unable to access subsidized housing. This allows them to allocate more money to other needs, such as health care and food, and gives them the ability to pay down debt and save for education, retirement, or unexpected needs.

Homelessness and hypermobility suffered by unassisted low-income families have dire consequences for children's educational attainment. Numerous studies show that children who move frequently—as they often must without stable housing—are more likely to drop out of school, repeat grades, perform poorly, or have numerous school absences compared to those with stable housing.

Affordable housing also can promote economic mobility. A recent Harvard University study, *The Equality of Opportunity Project,* found that moving younger children from a high-poverty neighborhood to a more integrated, lower poverty neighborhood improves their chances of going to college, lowers their risk of becoming a single parent, and increases their expected income as an adult by as much as 30 percent. Housing production programs, such as the Credit and Bonds, which build and preserve affordable housing in lower-poverty neighborhoods, are critical to achieving these results.

Affordable housing located near transportation and areas with employment opportunities provides low-income households with better access to work, which increases their financial stability and may help them eventually achieve independence from government assistance. It also provides employers in those areas with needed labor.

Preserve, Expand, and Strengthen the Housing Credit

As you consider changes to the current tax structure, NCSHA urges you to use this opportunity to build on what works, not only by preserving the Housing Credit and Housing Bond programs, but also by expanding Housing Credit resources so that we can better address the nation's severe affordable rental housing shortage, and by enacting policy modifications to strengthen this already successful program.

Earlier this year, senior Ways and Means Committee member Pat Tiberi (R-OH) and Committee Ranking Member Richard Neal (D-MA) introduced H.R. 1661, the Affordable Housing Credit Improvement Act. NCSHA strongly supports this legislation, which would improve program flexibility, simplify requirements, support the preservation of existing affordable housing, and facilitate Housing Credit development in challenging markets and for hard-to-reach populations.

In particular, NCSHA supports provisions of this legislation that would strengthen the bond-financed portion of the Housing Credit program; amend the Housing Credit income limits to allow for income averaging, thus allowing low-income families earning up to 80 percent of AMI access to Credit properties, while improving affordability for ELI households; provide parity in Housing Credit income rules for rural properties; simplify complex program rules, such as the

Housing Credit student rule; and establish a state-determined basis boost of up to 50 percent for units in Housing Credit properties reserved for ELI households.

Already, the Affordable Housing Credit Improvement Act has drawn wide bipartisan support, with more than half of Ways and Means Committee members cosponsoring the bill. We urge you to prioritize this important legislation in any tax reform proposal the Committee considers.

Moreover, we urge you to also expand Housing Credit resources. We know that Congress faces extraordinary pressure as it directs limited federal resources to so many priorities. However, we strongly believe that investing new resources in the Housing Credit makes sense, even in this time of budget austerity. Senate Finance Committee Chairman Orrin Hatch (R-UT) and Finance Committee member Maria Cantwell (D-WA) have sponsored legislation which would make the same improvements called for in the Tiberi-Neal bill, but also increase Housing Credit authority by 50 percent, phased in over a five-year period. Their bill, too, has strong bipartisan support in that chamber.

Each year, state Housing Credit allocating agencies receive applications requesting nearly three times more Housing Credit resources than agencies have to allocate. Yet even this does not quantify the extent to which demand for affordable rental housing outstrips the supply of Credits, as many developers with worthwhile projects do not even bother applying because the competition for Credit is so fierce.

State Housing Credit allocating agencies face difficult choices—not just whether to direct their limited Credit resources to preservation as opposed to new construction, but also whether to commit them to rural rather than urban areas or to neighborhood revitalization rather than to projects in high-opportunity areas. Agencies must balance whether to finance supportive housing for persons experiencing homelessness against assisted living for the elderly, housing for needy families, and projects for veterans—all of which serve populations with serious housing and service needs. And, in recent years, the federal government has turned to the Housing Credit time and again to achieve federal priorities such as transforming the nation's public housing through the Rental Assistance Demonstration program and producing housing for persons with disabilities in conjunction with the Section 811 program. Housing Credit authority is simply inadequate to fund all of the worthy developments that are so needed.

Preserve the Tax-Exempt Private Activity Housing Bond Program

For decades, the Housing Bond program—multifamily bonds for financing affordable rental housing and the MRB and MCC programs for financing affordable first-time, modest home purchases—has been an essential and successful tool in our affordable housing efforts. While these bonds are private activity bonds (PAB), Congress deemed that the affordable housing they make possible is worthy of a tax exemption, not just because of the direct housing benefits these bonds provide but also because of the positive effects the housing opportunities they create have more broadly on families, communities, and the economy.

In recent years, a few tax reform proposals have been advanced, both in Congress and from outside experts, which would eliminate the tax-deduction for interest on PABs while maintaining the exemption for other municipal bonds. This would be a mistake, and would drastically set back our efforts to provide affordable housing to those in need.

While it is true PABs provide direct financing to private entities, the bonds fulfill a very important public purpose that the market is often unable to meet. This is certainly the case of Housing Bonds. In addition to affordable housing, PABs support many other critical public priorities such as financing for airport renovations, sewage facilities, public power, and affordable student loans. Simply put, repealing or limiting the tax-exemption for PABs would severely hamper state and local governments' efforts to support affordable housing and other locally determined priorities.

The Housing Bond market, like many financial markets, has not fully recovered from the financial, housing, and broader economic crises of recent years. The historically low interest rates we have experienced during the recovery have hampered further the Housing bond market by greatly reducing the Housing Bond tax-exempt interest rate advantage. However, interest rates now are beginning to rebound and are likely to continue to climb. As we enter a more typical interest rate environment, the tax-exemption afforded to Housing Bonds will be even more critical to helping lower income home buyers purchase their first homes. Already, the market for Housing Bonds has strengthened. The most recent available data shows that in just one year—from 2013 to 2014—state HFA bond issuance jumped by 39 percent, as demand for tax exempt bond-financed housing grew.

Streamline and Simplify the Housing Bond Program

NCSHA recommends Congress take a few modest steps to make the highly successful Housing Bond program even more effective. With tax reform, Congress has the opportunity to further strengthen Housing Bonds by making low or no cost changes to eliminate outdated rules and to give states more flexibility to respond to their unique needs and circumstances. For example, within the MRB program, the purchase price limit is no longer needed, as the income limits Congress later imposed much more effectively control the price of homes MRB borrowers can purchase. The considerable resources HUD and Treasury expend coming up with the purchase price limits annually could be deployed elsewhere.

In addition, the MRB home improvement loan program, especially important now given the repair needs of foreclosed properties and the home maintenance families were forced to defer during the recession, would be much more useful if Congress increases its loan limit of $15,000 by an amount at least adequate to reflect the rise in construction costs since it was first established in 1980 and indexes that limit to keep up with construction cost inflation annually. We also encourage Congress, as it did on a temporary basis from 2008 through 2010, to allow state HFAs to use MRBs for refinancing, so state HFAs can help otherwise qualified borrowers.

In addition, we urge you to adopt proposals that would improve investor interest in the Housing Bond program. For example, NCSHA supports exempting interest earned on refunding Housing Bonds from the Alternative Minimum Tax. Conversely, we urge you to resist proposals that would undermine investor interest in Housing Bonds, such as limiting the value of the municipal bond interest deduction to a lower tax rate, as this would greatly diminish the value of Housing Bonds investments and, consequently, investor interest in them.

We also have several suggestions for simplifying the MCC program, which the tax code provides as an alternative to MRBs and which states utilize more when the Housing Bond rate advantage is limited, as it has been in recent years. MCCs help lower-income families afford homeownership by allowing first-time home buyers who meet the MRB program's income requirements to claim a dollar-for-dollar tax credit for a portion of the mortgage interest they pay each year, up to $2,000. Specifically, we urge you to simplify the MCC calculation; permit HFAs to recycle MCCs, as you allow them to recycle Housing Bonds; provide HFAs the flexibility to shorten the MCC term and/or "front load" its benefits; eliminate the $2,000 annual credit cap on MCC benefits; and provide HFAs the flexibility to structure the MCC assistance to respond to diverse home buyer needs. We would be happy to provide further detail on any of these proposals.

Thank you for your commendable efforts to promote a pro-growth, simplified tax code. NCSHA and our HFA members are pleased to have this opportunity to demonstrate to you the effectiveness of the Housing Credit and Housing Bond programs and provide to you our proposals for program improvements. We stand ready to assist you further with your evaluation in any way we can.