



## The Housing Credit

### *A Model of How a Government Program Should Work*

Since it was signed into law by President Reagan as part of the Tax Reform Act of 1986, the Low Income Housing Tax Credit (Housing Credit) has become our nation's most successful tool for building and preserving affordable rental housing. By providing an incentive for private sector investment, the Housing Credit has financed roughly 3 million apartments for low-income families, seniors, veterans, and those with special needs.<sup>1</sup> It creates opportunities for the millions of families and individuals in our country today who otherwise would pay an excessive portion of their income for housing, live in substandard and overcrowded conditions, or face homelessness.

The affordable housing provided by the Housing Credit has an immeasurable impact on the lives of those who live in it, and arguably results in numerous indirect cost savings for federal, state, and local governments. That's because housing stability leads to better health outcomes, improves children's school performance, helps people gain employment, and promotes economic mobility.

Key to the Housing Credit's success and its wide bipartisan support is its unique design:

- **A Model Public-Private Partnership with Investors Assuming the Risk.** The Housing Credit program is structured so that private sector investors provide upfront equity capital in exchange for a credit against their tax liability. This unique, market-based structure transfers the real estate risk from the taxpayer to the private sector investor. In the rare event that a property falls out of compliance anytime during the first 15 years after it is placed in service, the Internal Revenue Service is able to recapture tax credits from the investor. Therefore, it is in the interest of the private sector investors to ensure that properties adhere to all program rules, including affordability restrictions and high quality standards. This rigorous private sector oversight is a hallmark of the program and has contributed to its unparalleled record of achievement.
- **State Administered with Limited Federal Bureaucracy.** Unlike the housing programs of the past, the Housing Credit requires limited federal bureaucracy because Congress wisely and with great foresight delegated its administration and decision-making authority to state government. State Housing Finance Agencies, which administer the Credit in nearly every state, have statewide perspective; a deep understanding of the needs of their local markets; and sophisticated finance, underwriting, and asset management capacity. They combine sharp business acumen with a mission-driven public purpose to harness private capital to provide affordable housing.

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<sup>1</sup> CohnReznick, *Low-Income Housing Credit Program at Year 30: A Recent Investment Performance* 2015.

- **An Important Contributor to Our Nation’s Economic Wellbeing.** The National Association of Home Builders estimates that in a typical year, the Housing Credit program supports approximately \$3.5 billion in federal, state, and local taxes; \$9.1 billion in economic income from wages and business income; and 95,700 jobs across various U.S. industries.<sup>2</sup>
- **A Critical Part of Our Nation’s Infrastructure.** To be competitive, attract employment, and create thriving communities, cities and towns must have well-maintained infrastructure. The affordable housing produced using the Housing Credit is as much a vital component of that infrastructure as roads and bridges, water and sewer, and energy systems. Moreover, housing investment can often be a catalyst for other infrastructure investment in communities, including water systems, sidewalks, road improvements, and broadband.
- **A Record of Exceptional Performance.** With strict state agency underwriting standards, stringent compliance requirements, and due diligence from the private sector, the inventory of Housing Credit properties has an outstanding performance track record according to all commonly used real estate metrics. Only 0.66 percent of Housing Credit developments have undergone foreclosure, an unparalleled record compared to market-rate multifamily properties and all other real estate classes.<sup>3</sup>
- **Meeting a Need the Private Sector Could Not Otherwise Address.** Unlike many other tax expenditures, which subsidize activity that would occur at some level without a tax benefit, virtually no affordable rental housing development would occur without the Housing Credit. Housing simply costs too much to build for owners to charge rents that are affordable to low-income households.
- **Successfully Serving the Hardest-to-Reach Populations.** The Credit consistently serves households with incomes far below its statutorily mandated income limit of 60 percent of area median income (AMI). According to HUD data on Housing Credit resident demographics, nearly half (48 percent) of all households living in Housing Credit apartments are extremely low-income, meaning they earn 30 percent or less of AMI. Another 34 percent of residents are very low-income, meaning they earn more than 30 percent, but less than 50 percent of AMI. Not only does the Housing Credit serve low-income families, but it is also instrumental in financing housing for low-income seniors, veterans, persons with disabilities, and persons experiencing homelessness.<sup>4</sup>

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<sup>2</sup> National Association of Home Builders, *Eye on Housing, The Economic Impact of the Affordable Housing Credit* 2014.

<sup>3</sup> CohnReznick, *Low-Income Housing Credit Program at Year 30: A Recent Investment Performance* 2015.

<sup>4</sup> U.S. Department of Housing and Urban Development, *Understanding Whom the LIHTC Program Serves: Data on Tenants in LIHTC Units* 2014.