Statement of the National Council of State Housing Agencies
to the House Ways and Means Committee
in Support of Preserving and Strengthening the
Low Income Housing Tax Credit and Tax-Exempt Housing Bond Programs
April 15, 2013

On behalf of our Housing Finance Agency (HFA) members, the National Council of State Housing Agencies (NCSHA) appeals to the Congress to continue its long-time, steadfast commitment to the Low Income Housing Tax Credit (the Housing Credit) and tax-exempt private activity Housing Bonds and the outstanding affordable housing results these programs consistently achieve. We ask House Ways and Means Committee Chairman Camp and Ranking Member Levin, Real Estate Working Group leaders Johnson and Pascrell, and the other members of the Committee to preserve and strengthen these vital programs in any tax reform plans you advance.

NCSHA's members are the HFAs of the 50 states, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. 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 resource.

A History of Broad and Deep Support

The Housing Credit and Housing Bond programs have time and time again drawn strong bipartisan support, as Congress has taken steps over the years since their creation to:

- Better target these limited resources to people and places that especially need affordable housing help;
- Create certainty about their continued availability and increase their efficiency by making them permanent provisions of the tax code;
- Nearly double their annual authority and index it for inflation to restore and maintain their purchasing power; and
- Make the programs even more flexible and responsive to state needs and priorities, while streamlining their administration.

Over the last few decades, multiple bills, first calling for Housing Credit and Housing Bond permanence and then for their increased authority, have won the support of huge, bipartisan majorities in both the House and Senate. The programs were two of only three temporary tax programs Congress in 1993 determined merited permanence, maintaining then and since the temporary status of many other tax provisions.

The Housing Credit and Housing Bonds have also earned broad and deep support at all levels of government and across the housing industry. Their important contributions have also been widely and favorably acknowledged within the academic and foundation communities.

A Record of Powerful Results

The Housing Credit and Housing Bonds account for most of the affordable homes produced today with federal support. Often working together and sometimes in combination with other federal housing resources, they extend the capacity of all resources to respond collectively to the full spectrum of housing need, helping to finance ownership and rental housing, newly constructed and rehabilitated, for all populations—families, seniors, people with special needs, and the homeless—in all geographic areas—urban, suburban, and rural communities and areas struggling to recover from natural disasters.

Using single-family Housing Bonds, more commonly known as Mortgage Revenue Bonds or MRBs, state HFAs have made 3 million families homeowners for the first time. They generally help about 100,000 additional families achieve this milestone each year.

HFAs have produced over 2.6 million affordable rental homes with equity supplied by the Housing Credit. Nearly one-third of these homes were financed with multifamily Housing Bonds. HFAs have financed another million affordable rental homes with Housing Bonds alone. Using the Housing Credit and Bonds, HFAs add another 110,000 homes to our country's affordable rental housing inventory each year.

In strong and weak economies, using primarily MRBs, HFAs have been a constant, reliable source of flexible, affordable mortgage money for lower-income first-time home buyers, anchoring the first-time home buyer market. HFA single-family loan performance is strong, long noted for its low delinquency and default rates.

HFAs have never engaged in subprime or other risky lending. Through a time-tested combination of low-cost, generally fixed-rate, long-term financing; prudent underwriting; careful credit evaluation; thorough loan documentation; home buyer counseling; down payment assistance; and proactive servicing, HFAs have proven over many years that homeownership for lower income families is achievable and sustainable.

HFAs apply the same rigor in their multifamily development evaluation and underwriting as they do in their single-family work and with similar success. Default and foreclosure rates on Housing Credit and Housing Bond-financed rental housing developments are very low.

The impact of the Housing Credit and Housing Bond programs, however, is much bigger than the housing opportunity they create, as critical as that is. These programs contribute mightily to the economy, with every 100 Housing Bond-financed existing home sales generating 50 new jobs and contributing over $5.8 million to economic growth, according to the National Association of REALTORS® (NAR), and with every 100 new home sales producing 300 jobs and over $23.1 million in economic growth, according to the National Association of Home Builders (NAHB). Every 100 rental homes produced with the Housing Credit or Housing Bonds generates 116 jobs and over $8.6 million in economic growth and every $10 million spent on rehabilitation of existing rental homes contributes 111 jobs and over $8.2 million in economic growth, according to NAHB.

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 and people with special needs, and permanently house the homeless. They contribute to community revitalization by inspiring business growth, infrastructure advances, transportation solutions, and much more.

The only way to fully appreciate these results is to experience them firsthand. That is why we are so pleased that many of the Committee's members have visited in your states and districts affordable homes made possible by the Housing Credit and Housing Bonds and have taken the time to meet some of the people who live there and hear their remarkable stories. We would be delighted to help arrange such visits for any interested Committee members. We are also excited to bring some of these extraordinary stories to you through our *Faces of Home* website at www.ncsha.org/faces-of-home.

The Housing Credit and Housing Bond Programs' Keys to Success

We believe the Housing Credit and Housing Bonds have vastly outperformed and outlived most other federal housing programs because Congress wisely and with great foresight designed them to:

- Fulfill a limited but important and appropriate set of federally established, public-purpose goals and imperatives, such as income and affordability requirements, while leaving to the states how to utilize these resources within these broad parameters to respond most effectively to their unique affordable housing needs and priorities;

- Induce private sector investment and, thus, also benefit from private sector ingenuity, expertise, oversight, and vigilance; and

- Prevent the misuse of resources through oversight and compliance regimes that severely penalize noncompliance.

The state role in administering the Housing Credit and Housing Bonds has been further enhanced by the decision of virtually all states to commend their administration to their state HFAs. HFAs bring statewide perspective and focus, along with a deep understanding of the needs of their local markets. They possess sophisticated finance, underwriting, and asset management capacity and a multi-decade record of responsibility, effectiveness, transparency, public accountability, and success in administering tens of billions of dollars in federal housing assistance. They combine sharp business acumen with a mission-driven public purpose to harness private capital to provide affordable housing. They are financially sound, investment-grade rated institutions.

State HFAs leverage public and private resources effectively to support their affordable housing work. Though they rely significantly on the Housing Credit and Housing Bonds, HFAs administer and can bring to bear a wide array of other resources, including taxable Housing Bond proceeds, federal and state housing funding, dedicated state and local revenue sources, and revenues they generate through their lending programs.

State HFAs are also well-positioned to assess housing needs across their states and to allocate resources where they are most needed. HFAs do not make these judgments alone. They work in close partnership with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the diverse housing challenges they confront.

In addition, state HFAs have the ability to bring together state agencies and resources in ways the federal government and local communities cannot. For example, they have teamed up with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in HFA-financed assisted living. They work with state mental health departments to provide quality housing linked to supportive services for people with mental illness.

State HFAs have been significantly aided in their Housing Credit and Housing Bond work by the tremendous flexibility these programs provide them in determining and responding to their diverse needs. While carefully heeding the programs' federal income targeting and other rules, HFAs have used these resources creatively to serve a multitude of populations and purposes, which vary widely across states depending on their needs and circumstances. For example, some HFAs have prioritized the development of rental homes for seniors or people with special needs. Others have emphasized the preservation of existing rental developments. On the ownership side, HFAs have prioritized various populations, including veterans, first responders, teachers, and heath care workers.

State HFAs have also gone well beyond the requirements of these programs in a number of areas. For example, though the Housing Credit program requires that 20 percent of the homes in a particular development be rented to families earning 50 percent or less of the area median income (AMI) or 40 percent be rented to families earning 60 percent or less of AMI, states often reach families with incomes well below these limits. In fact, New York University recently found in examining 2009 and 2010 Housing Credit data that approximately 60 percent of tenants living in Housing Credit rental homes had incomes of 40 percent of AMI or less and that 40 percent of these tenants had incomes of 30 percent of AMI or less. On the ownership side, state HFAs provided MRB mortgages in 2011 to families with an average income of $38,967, just 77 percent of the national median income of $50,502. The federal MRB income limit for families of one or two persons is the greater of the statewide or area median income and for larger families, the greater of 115 percent of the statewide or area median income.

Finally, HFAs, grateful to Congress for not imposing one-size-fits-all rules that simply would not fit all states and could cripple their effectiveness, have come together through NCSHA to develop best practices in a number of program administration areas, such as development cost limits, developer fee limits, and operating expense projections, that HFAs have adapted to meet their own situations. The then-General Accounting Office, in its very positive evaluation of the Housing Credit program in 1997, acknowledged and praised this best practice approach.

The importance of the role the private sector plays in the Housing Credit and Housing Bond programs can also not be overstated. The programs stimulate corporate and individual investment in affordable housing through the promise of tax benefits. However, those tax benefits are only realized if the federal rules governing these programs are strictly followed and the housing is maintained in strong physical and financial condition. In fact, within the Housing Credit program, investors risk the recapture of tax benefits they have already taken if they do not consistently comply with program rules and requirements.

These compliance regimes motivate investor involvement and vigilance for the duration of the tax benefit period. So, for example, within the Housing Credit program, investors and their syndicator partners play an active role, from evaluating a proposed development's financial feasibility and long-term viability at the outset, to watching over its construction and lease-up, to ensuring that its tenancy characteristics and its financial and physical condition remain compliant over the 15-year Housing Credit period. This private sector interest and involvement effectively creates a second layer of evaluation, oversight, and asset management, complementing that which the HFA undertakes and contributing significantly to the high rate of compliance and low rate of default and foreclosure among Housing Credit developments.

Making a Full Recovery

The Housing Credit and Housing Bond markets, like all financial markets, were not immune to the financial, housing, and broader economic crises of recent years. We are pleased to report, however, that the Housing Credit market has made a fast and full recovery, with Credits in 2013 drawing average pricing of 89 cents on the dollar, states fully utilizing their annual Credit authority, and demand for Credits exceeding supply nationally by a ratio of two to one. In fact, affordable rental housing production, driven by the Housing Credit and Housing Bonds, has rebounded more quickly than the conventional rental market, helping to boost the overall rental and housing markets.

While the Housing Bond market has not fully come back, Housing Bond issuance has recovered substantially since its recession low in 2008 and was up 15 percent in 2011 from the prior year. Housing Bond issuance has also been inadvertently suppressed by recent-year actions by the Federal Reserve to support the economic recovery by keeping interest rates low, which has greatly reduced, if not eliminated, the Housing Bond tax-exempt interest rate advantage. We fully expect Housing Bond issuance to increase further once these temporary measures are lifted and Housing Bond lending rates become more attractive. Finally, HFAs are working diligently with their partners to come up with creative and attractive new ways to utilize Housing Bond authority for the affordable housing purposes Congress intended, including using Housing Bonds to support mortgage-backed security lending platforms that use the latest homeownership financing techniques and respond better to today's investors' interests, including taking advantage of the To Be Announced (TBA) market.

It Will Not Happen Without Them

The affordable housing activity the Housing Credit and Housing Bonds generate simply would not happen without these programs. Rents affordable to the lower-income families Housing Credit and Housing Bond-financed developments serve just cannot support the cost of developing and operating rental housing without some form of subsidy. Other federal subsidies, like HOME Investment Partnerships funding, which is often used with Housing Credit and Housing Bond financing to drive rents even lower, are generally insufficient to finance rental housing production on their own. And, given today's federal budget realities, it is unlikely that Congress will find a way in the near-term to substantially increase these subsidies or create a new spending program with funding adequate to replace the Housing Credit and Housing Bond programs' results.

Frankly, even the ability of existing subsidies, like HOME, to help the Housing Credit and Housing Bonds reach even lower income renters than they were designed to serve on their own has been reduced by cuts to these subsidies in recent years. And, unfortunately, we expect these subsidies to remain vulnerable to additional cuts in the future, as Congress continues its efforts to reduce the deficit. Finally, even if Congress could find the funds to replace the Housing Credit and Housing Bond programs with direct spending programs, we would not recommend it, as so many of the benefits private sector investment brings to the Housing Credit and Housing Bond programs would be lost.

Similarly, on the ownership side, it would be very difficult to replace the results MRBs achieve. Especially today, with overly tight credit and underwriting standards, MRBs represent about the only hope for credit-worthy families with modest incomes and limited capacity to amass large down payments to access homeownership. And, again, the prospects for replicating MRB results through a federal spending program are dim.

Affordable Housing Need Is Great and Growing

As successful as the Housing Credit and Housing Bond programs are, even working at full capacity, they do not begin to address the affordable housing need in this country, which is great and growing. In fact, we are losing ground in this battle, as needs grow and resources shrink at rapid rates.

According to HUD's latest Worst Case Needs report**,** in 2011 nearly 8.5 million very low-income families, who received no government housing assistance, paid more than half their monthly income for rent, lived in severely substandard housing, or both. This number is up 2.6 million since 2007, an increase of 44 percent.

Today, there are only 57 affordable rental homes available for every 100 very low-income renter households, those earning 50 percent of AMI or less. For the 10.1 million households with extremely low incomes, those earning 30 percent of AMI or less, there are only 30 affordable homes available for every 100 households. Yet, only one in four households eligible for federal rental housing assistance receives it.

While the single-family home market has recently shown signs of recovery, stringent lending standards and competition from investors for lower-cost homes have prevented many low- and moderate-income families from purchasing their first homes. NAR reports that first-time purchases have accounted for just 30 percent of all home sales in the past three months, compared to the historical average of 40 percent, a decline of 25 percent. Fewer entry-level home buyers will hold back the housing market's still fragile recovery by making it difficult for "move-up" buyers to sell their homes. In this tough market, HFA MRB loans have a vital role to play in fueling the first-time home buyer and the overall housing market.

Preserve and Strengthen the Housing Credit and Housing Bond Programs

In summary, we urge you to preserve the Housing Credit and Housing Bond programs in any tax reform plan you put forward because:

- These programs are highly effective in achieving the affordable housing objectives Congress set for them;
- The affordable housing opportunity and associated economic and social benefits they make possible would not occur without them;
- Their strengths and results cannot be replicated through a federal spending program; and
- The critical housing needs they address are great and growing.

We also urge you to seize the opportunity of tax reform to further strengthen these programs by making low or no cost changes to eliminate outdated rules and give states even 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 and the considerable resources HUD and Treasury expend coming up with the purchase price limits annually could be deployed elsewhere. We also have several suggestions for simplifying the Mortgage Credit Certificate program, which the tax code already provides as an alternative to MRBs.

In the Housing Credit program, we urge you to make permanent a critical change you made on a temporary basis in 2008 and have effectively extended once since, setting a 9 percent Credit rate floor, to allow the 9 percent Credit rate to float up but not down, thus increasing development funding predictability and, in some cases, helping developments achieve financial feasibility. We also ask that you extend this same concept of a fixed rate floor to the 4 percent acquisition Credit.

Appreciating the revenue constraints within which you are operating, we ask that you at least consider increasing the Housing Credit cap, given that there is twice as much demand for Credit nationally as there is supply; other federal housing resources are being severely reduced; the Credit is being asked to respond to an increasing number of needs, such as the preservation of federally assisted housing; and rental housing need is great and growing at an increasing pace. The Bipartisan Policy Center's Housing Commission recognized this when in its recently released report it called for a 50 percent increase in annual Housing Credit authority.

If a larger Credit cap increase is not possible at this time, we urge you to at least restore the two-year 10 percent Housing Credit cap increase you enacted in 2008, not as a recovery measure, but to offset the loss in Credit production you appreciated other Credit changes you made at the time would cause, such as giving states the ability to award larger Credit amounts to developments meeting special priorities they establish, like developments located in rural and other difficult-to-develop areas.

We also urge you to resist proposals that would undermine investor interest in the Housing Credit or Housing Bonds. We are very concerned, for example, that the proposal the Administration has made again in its most recent budget to limit the value of tax deductions, including municipal bond interest, to the 28 percent tax rate would greatly diminish the value of Housing Bond investments and, consequently, investor interest in them.

Finally, we have only just recently seen the budget proposals the Administration is offering for the first time concerning the Housing Credit and Housing Bonds. We look forward to sharing with you our views on these proposals once we have had the opportunity to analyze them and seek our HFA members' views on them.

Thank you for your commendable efforts to strengthen and simplify the 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. We stand ready to assist you with your evaluation in any way we can.