NCSHA
National Council *of*
State Housing Agencies

MEMORANDUM

TO: Interested Parties

FR: NCSHA Staff

DATE: May 17, 2021

RE: Infrastructure Policy Priorities of the State Housing Finance Agencies

Executive Summary

Affordable housing is essential infrastructure. Like other physical forms of it, affordable housing is a part of the built environment every community needs that only public-private partnerships can ensure exists in sufficient supply and condition. Affordable housing complements other forms of physical infrastructure as well, ensuring the economic development it creates has room for everyone. And affordable housing is a foundation for the human infrastructure on which the nation relies: It's the place where jobs go to sleep, caregivers support families, and kids get what they need to succeed in school.

An affordable housing infrastructure package must stabilize the existing stock of affordable owner-occupied and rental homes — existing assets that, in most cases, will cost much more to replace than repair. It also must stimulate the creation of new homes and apartments — especially at price points and rents where demand widely exceeds supply.

In both areas, affordable housing infrastructure investment should measurably serve people and communities of color where prior efforts have fallen short. And in both areas it should strategically drive more widespread use of proven, cost-saving techniques and technologies that result in more efficient and durable housing for the future.

While some elements of a comprehensive infrastructure program may require new agencies, programs, and systems, the nation's state housing finance agencies (HFAs) stand ready to deliver affordable housing as part of a comprehensive approach that includes:

- Increasing and improving the Housing Credit,
- Strengthening Housing Bonds to support home improvement and preservation,
- Creating a new Neighborhood Homes Credit,
- Expanding the HOME Investment Partnerships housing block grant, and
- Investing in targeted down payment assistance.

Increasing and Improving the Housing Credit

The Low-Income Housing Tax Credit (Housing Credit) has long been our nation's most successful program for affordable housing construction and rehabilitation. It should be the centerpiece of any infrastructure bill's rental housing development and rehabilitation component. The Affordable Housing Credit Improvement Act of 2021 (S. 1136/H.R. 2573) should be part of any infrastructure bill Congress passes.

Highlights of the bill include:

- A 50 percent increase in the Housing Credit volume cap phased in over two years. This cap increase is estimated to allow states to finance nearly 300,000 additional affordable rental homes over 10 years.[1]

- Reducing the bond financing threshold for the 4 percent Credit from 50 percent to 25 percent. This provision is estimated to allow states to finance nearly 1.5 million more affordable rental homes over 10 years and would reduce transactional costs that needlessly drive up the cost of production.[2]

- Basis boosts for properties in rural and Native American areas and a state discretionary basis boost for bond-financed Housing Credit properties. These would finance more than 220,000 additional affordable rental homes over 10 years.[3]

An infrastructure bill should also shore up the existing inventory of Housing Credit properties by closing the "qualified contract" loophole that allows owners to terminate affordable use restrictions on their properties before the statutorily required affordability period is over. Despite efforts by state Housing Credit allocating agencies, more than 85,500 units have been lost from the affordable housing stock due to this loophole.

Bicameral, bipartisan legislation was introduced in the 116th Congress to close the loophole, the Save Affordable Housing Act of 2019 (S. 1956/H.R. 3479). We expect Senate Finance Committee Chair Wyden (D-OR) to introduce new legislation that will include this provision. It would take two critical steps:

- Repealing the qualified contract option in Section 42 for future developments and
- Correcting the statutory price of existing properties so that it is based on the fair market value of the property as affordable housing.

Closing the qualified contract loophole would also result in savings to the federal government. The Joint Committee on Taxation has scored this proposal as raising $1,073,000 in revenue over a 10-year period.[4]

---

[1] "2021 Affordable Housing Credit Improvement Act Could Finance More Than 2 Million Additional Affordable Rental Homes Over 10 Years," Novogradac.

[2] Ibid

[3] Ibid

[4] "Estimated Revenue Effects of the Revenue Provisions Contained in Division M of H.R. 2, The Moving Forward Act," Joint Committee on Taxation, July 1, 2020.

Strengthen Housing Bonds to Support Home Improvement

Tax-exempt Housing Bonds provide low-cost financing for hundreds of thousands of owner-occupied homes (Mortgage Revenue Bonds, or MRBs) and rental apartments (Multifamily Housing Bonds) every year. They can be especially effective in funding the repair and rehabilitation of existing affordable units.

MRBs can be used to finance home improvement loans for critical repairs and/or energy-efficiency upgrades. These loans help working families whose homes require repairs to remain livable, as well as homeowners whose homes need substantial upgrades to remain accessible, or whose homes suffered damage from a natural disaster. The current limit of $15,000 on MRB home improvement loans was established 40 years ago and is too low to attract lender and homeowner participation.

Increasing the MRB home improvement loan limit to $50,000 and indexing it to reflect increases in construction costs would unlock capital for home retrofits.

MRBs and Multifamily Housing Bonds are grouped with other "private-activity" tax-exempt bonds for other purposes (including some other forms of infrastructure), which are subject to annual aggregate volume limits in each state. Affordable multifamily housing needs account for most "private-activity" bond usage, but the needs for bond financing still exceed the available resources.

Exempting financing for federally-assisted affordable housing, including public and USDA rural housing, would solve this challenge. Representative Clark (D-MA) introduced legislation along these lines, the SAVE Federally-Assisted Housing Act (H.R. 8533) last year.

Creating a New Neighborhood Homes Credit

The Neighborhood Homes Investment Act (S. 98, H.R. 2143) would create a new federal tax credit to spur new construction or substantial rehabilitation of affordable, owner-occupied housing located in distressed urban, suburban, and rural neighborhoods. It would mobilize private investment to build and substantially rehabilitate 500,000 affordable homes for moderate- and middle-income homeowners over the next 10 years.

The Neighborhood Homes Credit would be administered by state agencies through annual competitive application rounds. The credits could not be claimed until the construction is completed and the home is occupied by an eligible homeowner, and would only cover the difference between the eligible development costs and the final sales price. In general, homes would have to be located in areas experiencing high poverty, low incomes, and low home values. State HFAs recommend allowing additional flexibility to permit some portion of annual credits to help rebuild disaster areas and create affordable homeownership in other areas of defined need.

Expanding the HOME Housing Block Grant

The HOME Investment Partnerships (HOME) program is the most flexible housing program Congress has ever enacted. States and localities use HOME to fund affordable apartment construction, rental assistance, and home repairs for low-income owners. Every dollar in HOME funds leverages nearly five dollars in other public and private resources.

Year after year, HOME is needed to do more and lately has been pressed to fill financing gaps caused by lumber shortages and other construction cost increases; support transformation of public housing developments serving some of the neediest Americans; respond to housing destruction after natural disasters; and prevent a spike in homelessness caused by the pandemic.

House Financial Services Committee Chair Maxine Waters (D-CA) has proposed $35 billion for HOME in the Housing Is Infrastructure Act. This infusion of resources for the flexible HOME program would jumpstart housing production, especially when paired with an expanded Housing Credit program.

Investing in Targeted Down Payment Assistance

A healthy and equitable home purchase market is crucial toward strengthening the nation's housing infrastructure. Increasing home purchases will spur new home construction and rehabilitation, prompt other infrastructure investments, and open multifamily housing options for those who wish to rent.

Expanding access to down payment assistance is the single biggest step Congress can take to expand homeownership opportunities for working families and address the racial homeownership gap. Saving up for a down payment is perhaps the primary barrier to affordable homeownership for low- and moderate-income families and racial and ethnic minorities: More than two-thirds of renters cited saving for a down payment as an obstacle to homeownership, according to the Urban Institute. Many of these households are otherwise able to afford a home mortgage but are finding it increasingly difficult to amass the requisite savings for a down payment.

Any federal down payment assistance program should include state HFAs in its delivery model. HFAs have decades of experience responsibly lending to low- and moderate-income home buyers, which they apply to their programs today. Down payment assistance has been a key part of these efforts in the last 10 years. In 2019 alone, HFAs provided down payment assistance to more than 140,000 borrowers, just over 80 percent of all HFA program loans that year.

NCSHA is pleased that Congress is considering several proposals to help home buyers pay for a down payment. We are generally supportive of a proposal drafted by House Financial Services Committee Chair Maxine Waters (D-CA) that would provide funds to state HFAs for down payment assistance grants of up to $20,000 for low- and moderate-income home buyers ($25,000 for socially disadvantaged individuals).

More Racially Equitable Affordable Housing Infrastructure

We commend President Biden's American Jobs Plan for its focus on directing federal infrastructure funds to areas that have suffered from racial disparities. The affordable housing infrastructure investments we propose are consistent with this approach. In terms of rental housing, research has shown that strategically targeted affordable housing development and rehabilitation efforts can boost incomes, reduce crime, and lead to better outcomes for children, specifically including minority children, in economically disinvested areas.[5]

At the same time, the Housing Credit program in particular has proven to be a viable tool for encouraging affordable housing development in less racially and economically segregated areas.[6] Innovative state HFAs, such as the Wisconsin Housing and Economic Development Authority, are also harnessing the Housing Credit programs to strengthen Black development companies.

In terms of for-sale housing, the experience of state HFAs suggests that both development and rehabilitation can be effective ways to improve racial equity. On the former, the Massachusetts CommonWealth Builder program, led by MasssHousing, is increasing the stock of moderately-priced starter homes and building intergenerational wealth for people of color. On the latter, the Tennessee Housing Development Authority is working to revitalize Black neighborhoods in Memphis devastated by the foreclosure crisis through target home repair. These are just two examples.

State HFA down payment assistance also offers models for reducing racial disparities. The Illinois Housing Development Authority's "Smart Buy" program provides an affordable 30-year fixed-rate first mortgage and up to $40,000 in student loan debt relief aimed at helping borrowers, especially those of color, overcome barriers to homeownership and wealth-building.

More Efficient and Durable Affordable Housing Infrastructure

Housing finance agencies, home builders, apartment developers, and community-based housing organizations of all kinds have been at the forefront of efforts in recent years to make the built environment more energy efficient and environmentally sustainable. Commonsense measures can improve the comfort, durability, and performance of all kinds of homes for little to no additional construction cost.

---

[5] Diamond, Rebecca and Tim McQuade, "Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development," *Journal of Political Economy*, 2019; and Freedman, Mathew and Emily G. Owens, "Low-income housing development and crime," *Journal of Urban Economics*, 2011; and Deng, Lan, "Low-Income Housing Tax Credit Developments and Neighborhood Change: A Case Study of Miami-Dade County," *Housing Studies*, 2011; and Derby, Elena, "Does Growing Up in Tax-Subsidized Housing Lead to Higher Earnings and Educational Attainment?" Georgetown University and Joint Committee on Taxation, 2019.

[6] Gould Ellen, Ingrid and Keren Mertens Horn, "Points for Place: Can State Governments Shape Siting Patterns of Low-Income Housing Tax Credit Developments?" *Housing Policy Debate*, 2018; and "Spotlight on Underserved Markets: Opportunity Incentives in LIHTC Qualified Allocation Plans," Freddie Mac and the National Housing Trust, 2018.

Anecdotal evidence suggests green building has achieved deeper penetration in the development of affordable multifamily housing than any other real estate. Builder surveys suggest increased adoption of green features in both new for-sale construction and home remodeling. The investments we recommend would drive more activity in these areas generally. Considerable incentives exist at the state and local levels and in the utility sector to make newly constructed affordable housing greener still.

The bigger need and harder challenge is the existing stock of affordable homes and apartments. While much can and would be accomplished in the course of regular rehabilitations that the investments we propose would make possible, it is clear making major energy and environmental improvements at scale in existing affordable housing will require federal funding dedicated for that purpose specifically.

With respect to single-family homes, the Weatherization Assistance Program is a long running program that could be expanded. For affordable rental apartments, including public housing, new programs need to be created. A report published by the U.S. Department of Housing and Urban Development during the Trump Administration determined that a temporary multifamily retrofit program in 2009 resulted in "substantial energy and water savings, resulting environmental improvements, and revitalization of the nation's public and assisted housing stock."[7] A similar program could be an important part of an infrastructure bill this year.

---

[7] "Assessment of ARRA Green and Energy Retrofits in HUD-Subsidized Housing," U.S. Department of Housing and Urban Development, 2017.