



National Council of  
State Housing Agencies

## Neighborhood Homes Investment Act

*Below is a summary of the proposed “Neighborhood Homes Investment Act” included in the Build Back Better Act that passed the House of Representatives on November 19, 2021. NCSHA will update the summary as events warrant.*

*Updated November 22, 2021*

- Authorization:** Establishes the “Neighborhood Homes Credit,” (NHC) a federal tax credit to support the new construction or substantial rehabilitation of affordable, owner-occupied housing located in distressed urban, suburban, and rural neighborhoods.
- Duration:** Calendar years 2022 through 2025.
- Administration:** Tax credits will be allocated at the state level by state housing finance agencies (HFAs) or other agencies chosen by the state. At the federal level, the program will be overseen by the Treasury Department and Internal Revenue Service.
- States are required to develop qualified allocation plans (QAP) outlining how they will allocate the NHC tax credits. The QAP must include criteria pertaining to a neighborhood’s need for new or rehabilitated homes: neighborhood revitalization strategy and impact, sponsor capability, likely long-term homeownership sustainability, and any additional state-determined criteria (e.g., construction standards, developer fees). Ten percent of each state’s allocations would be set aside for nonprofit sponsors. The QAPs are subject to a public hearing and comment process.
- Credit Allocation Formula:** Each state’s NHC allocation would be equal to its state population times \$3, with a small-state minimum of \$4 million, except for in 2025 when the cap would be \$6 times the state population or \$8 million. In years 2023 to 2025, those amounts would be adjusted upward for inflation.
- States could carryforward any unused NHC allocations for the next three calendar years.

Use of Credits:

Similar to how the Housing Credit spurs the development of affordable multifamily housing, NHC credits would be used to incentivize the construction or substantial rehabilitation of affordable for-ownership housing by bridging the value gap between the costs of constructing/rehabbing the home and the home's sale price.

For example:

Property acquisition cost =	\$ 50,000
Construction or rehab cost =	<u>\$150,000</u>
Total development cost =	\$200,000
LESS: Sales price	<u>- \$160,000</u>
<b>NHIA tax credit = value gap</b>	<b>\$ 40,000</b>

The NHC tax credit is capped at 35 percent of the lesser of (1) total development costs (acquisition, rehab, demolition, and construction) or (2) 80 percent of national median sales price for new homes (which was \$334,000 in 2020). Additionally, eligible building acquisition costs are limited to 75 percent of rehab costs, and a minimum amount of \$20,000 per unit of rehab must be completed.

States would allocate only the NHC tax credits that are reasonably needed to make a project financially feasible. After receiving an NHC tax credit allocation, project sponsors next would raise capital from investors and use it to develop or rehab the home or work with the builder and homeowners. Investors would receive a one-year tax credit after the home is sold to a qualified homebuyer.

If a home is not sold to qualified homebuyer five years after the NHC credit is allocated, the investor cannot claim the credit.

Qualified Census Tracts:

At least 80 percent of NHC credits must be allocated for projects in neighborhoods located in census tracts:

- With a median income at or below 80 percent of area median income;
- A poverty rate not less 130 percent of the metro area's as a whole; and

Qualified Census Tracts,  
continued:

- A median home value below the median home value in its metro area;

**OR** projects in census tracts:

- Located in a city with at least 50,000 residents that has a poverty level at or above 150 percent of the area level;
- With a median income at or below the area median average; and
- With a median home value at or below the area median.

Such census tracts account for 22 percent of metro census tracts nationwide, and 27 percent of non-metro census tracts. HUD will be required to publish a list of eligible census tracts each year.

States would be able to use up to 20 percent of their tax credits for non-metro tracts with median incomes below the state median income, as well as census tracts located in federal disaster areas (as long as they are allocated while the disaster declaration is in effect). States would also have more flexibility in allocating credit to help homeowners substantially rehabilitate and remain in their homes.

NCSHA seeks greater flexibility for states to use up to 20 percent of their tax credits in any census tracts in their states.

Eligible Homebuyers: NHC funded homes must be sold to homebuyers who will use the home as their primary residence and have an income at or below 140 percent of area median income.

Home Sale Price Limits: Sales prices are limited to four times the metro area or state median family income. Higher limits apply to homes with 2-4 units.

Homeowner Repayment: If a homeowner sells a home they bought from an NHC project less than five years after purchasing it, they are required to pay the state an amount equal to 50 percent of the gain realized on the sale. The required repayment amount declines by 20 percent for each year the homeowner remain in their home, and becomes zero after five years. States will be required to put a lien on each home built or rehabbed with the NHC to ensure potential repayment.

States can waive the repayment requirement if the homeowner experiences a hardship.