Neighborhood Homes Investment Act FAQs 2021

What is the Neighborhood Homes Investment Act?

The Neighborhood Homes Investment Act (NHIA) is a proposed federal tax credit targeted to the 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.

Because home values in the targeted census tracts and rural areas are such that developers cannot sell homes for what it costs to construct or substantially rehabilitate them (known as the "value gap"), the NHIA tax credit would incentivize developers to construct new or substantially rehabilitate housing because it closes the value gap, up to 35 percent of eligible development costs.

State agencies would award the NHIA tax credits to project sponsors who would raise capital from investors to finance home building and substantial rehabilitation. Once a home is sold to an income-qualified owner-occupant, the investor would receive the one-year tax credit.

The program would require states to develop qualified allocation plans (QAP) against which they would allocate the NHIA tax credits. Per the legislation, the QAP would 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). Additionally, 10 percent of each state's allocations would be set aside for nonprofit sponsors. The QAPs are subject to review after a public hearing and comment process, so they would reflect state and local priorities.

Where will the NHIA tax credit be used?

The NHIA tax credit is highly targeted to the single-family homeownership needs of the distressed neighborhoods and rural areas that most need it. Eligible neighborhoods must meet all three of the following tests:

- **Elevated poverty rates:** not less than 130 percent of the metro rate (130 percent of the state rate in non-metro areas)
- **Lower incomes:** up to 80 percent of the metro median income (80 percent of the state median income in non-metro areas)
- **Modest home values:** below the metro median home value (below the state median in non-metro areas)

This works out to be about 24 percent of all metropolitan census tracts and 25 percent of non-metro census tracts in the country.

In addition, 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 and to help longstanding 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.

What kind of housing would be improved or built with the NHIA tax credit?

One- to four-unit single-family properties, condominium units, and co-op units would be eligible for the NHIA tax credit. The program is flexible and can address the needs of older, existing housing in need of substantial rehab; vacant lots where in-fill homes can be built; or housing so far gone it needs to be torn down and rebuilt. In all cases, the NHIA tax credit will fill the value gap preventing developers from tapping this affordable homeownership resource today.

Housing with value gaps are the hardest homes for individual homeowners to purchase, as most homeowners do not have the skills, knowledge, or time to do the work themselves or to coordinate and oversee a wide variety of contractors while also holding down their day jobs.

Furthermore, the NHIA tax credit would revitalize neighborhoods. When housing within a neighborhood is rehabilitated and occupied by its owners, the neighborhood is stabilized and other investment follows, such as in shops and services, resulting in more vibrant and sustainable neighborhoods and communities.

Whom does the NHIA tax credit serve?

The NHIA tax credit program would directly serve low- and moderate-income households earning 140 percent of area median income (AMI) or less who are seeking to purchase affordable, entry-level homes and live in them for at least five years. If the homeowner sells or rents their home before they have lived in it for five years, the homeowner must pay a penalty back to the state agency, which would be calculated as declining percentage of the gain on the sale of the home (50 percent in Year 1…10 percent in Year 5).

The new or rehabilitated housing resulting from the NHIA tax credit is ideal for those purchasing their first homes, reducing the likelihood they will have surprise repair expenses in their early years of homeownership (when homeowners are adjusting to the costs of homeownership), thereby contributing to more sustainable homeownership.

Why is the NHIA tax credit necessary?

New homes cannot be built and existing housing cannot often not be rehabilitated or acquired and rehabilitated and then sold without losses, preventing such building, rehabilitation, or acquisition from taking place. The NHIA tax credit offsets the value gap and makes such development feasible.

Will the Neighborhood Homes Investment Act cause gentrification?

The NHIA tax credit is designed to protect against neighborhood gentrification. Eligible neighborhoods have median home values below the area median income, and an eligible homeowner or purchaser is limited to 140 percent of AMI. In addition, there is a cap on the price at which a home can be sold, which is four times AMI, and the eligible basis for tax credits is limited to 80 percent of the national median new home price.

For example, if the AMI is $75,000, the maximum homeowner income would be $105,000 and the maximum sales price of the home would be $300,000.

How would the NHIA tax credit work?

States would allocate the tax credits on a competitive basis according to their publicly vetted and publicly available allocation plans.

The states would allocate only the NHIA tax credits that are reasonably needed to make a project financially feasible. After receiving an NHIA 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.

The NHIA tax credit covers the gap between the development cost and the home's sale price. For example:

Property acquisition cost =	$ 50,000
Construction or rehab cost =	$150,000
Total development cost =	$200,000
LESS: Sales price	– $160,000
NHIA tax credit = value gap	**$ 40,000**

The NHIA tax credit is capped at 35 percent of the lessor 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.

Once a home is completed and inspected, it would be sold to an owner-occupant just like any other home would be: An income-eligible homeowner makes an offer, makes a down payment, and obtains a mortgage to cover the home's sales price.

How will the NHIA tax credit be allocated to the states?

State housing finance agencies (HFAs) will be given NHIA tax credits annually based on a formula: the larger of $6 per capita or $8 million. Nationwide, the tax credits will total approximately $2 billion annually.

Who will administer the NHIA tax credit?

The NHIA tax credit will be administered by state HFAs, state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics, such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by the state's governor.

Who will oversee administration of the NHIA tax credit?

The U.S. Treasury, through the Internal Revenue Service (IRS), will oversee the NHIA tax credit program at the federal level and will issue program guidance and regulations. In addition to IRS monitoring, state-level administration and private-sector due diligence — under threat of tax credit forfeiture (for sponsors/developers) and recapture (for homeowners) — eliminate the need for extensive federal involvement and bureaucratic regulations. This two-tiered oversight system will be an essential element of the NHIA tax credit program's success.

What is the projected impact of the NHIA tax credit?

Assuming an average NHIA tax credit of $40,000, the impact over 10 years would include:

- 500,000 homes built or substantially rehabilitated
- $100 billion of total development activity
- 785,714 jobs in construction and construction-related industries
- $42.9 billion in wages and salaries
- $29.3 billion in federal, state, and local tax revenues and fees

Would the NHIA tax credit leverage other funding?

Yes. A unique feature of the NHIA tax credit is its ability to leverage private equity, which investors contribute upfront in exchange for a credit against their federal tax liability the (one) year the property is sold to an income-eligible owner-occupant.

Would the private sector finance affordable housing without an incentive like the NHIA tax credit?

No, because the numbers simply do not work without the NHIA tax credit. No investor will spend more money to purchase a vacant lot/abandoned home/home in need of substantial rehab and invest the time and money to undertake the work than they can get back from that property's sale. It just doesn't make economic sense without the NHIA tax credit.

Who is supporting the NHIA tax credit?

The NHIA tax credit is being supported by a broad coalition of 32 mostly national organizations, including NCSHA. The coalition includes the Local Initiatives Support Corporation, National Community Stabilization Trust, Habitat for Humanity, the Housing Assistance Council, Mortgage Bankers Association, National Association of Affordable Housing Lenders, National Association of Real Estate Brokers, and National Association of Realtors.