



HOMES ARE WHERE

ARE WHERE

JOBS GO TO LIVE

GO TO LIVE



LEGISLATIVE ENHANCEMENTS: NEIGHBORHOOD HOMES INVESTMENT ACT

OVERVIEW

The *Neighborhood Homes Investment Act* (S.1686/H.R. 2854), re-introduced for the 119th Congress in the spring of 2025, would create a targeted incentive to cover the gap between the costs of building or renovating single family homes and the sales value of those homes - with a goal of producing 500,000 homes over the next decade.

In just the past year since this legislation was introduced, this gap has grown in many markets, reflective of rising construction costs, escalating home prices, and higher borrowing costs. While socializing this legislation on the Hill and among housing industry stakeholders (there are currently over 50 national organizations and trade associations that have endorsed the legislation), the Neighborhood Homes Coalition has received overwhelmingly positive feedback for the legislation – but also recommendations for how the legislation could be improved to meet evolving challenges.

To this end, the legislation’s Republican and Democratic sponsors in the House and the Senate have developed several revisions that they intend to incorporate into the next version of the legislation - hopefully to be enacted in a tax bill before the end of the 119th Congress. In the interim period, we will still continue to seek co-sponsors for S.1686 and H.R. 2854 as introduced.

LEGISLATIVE ENHANCEMENTS

1. REDUCE PROGRAM COSTS

Current Legislation: Authorizes the program permanently, with a formula that allocates tax credits to states at \$9 per capita with annual inflation adjustments.

Revision: Maintain tax credits at \$9 per capita, but only for four years (2026-2029). This will provide a sufficient period of ramp up time for stakeholders, while also significantly reducing the budgetary impact of the initiative.

2. INCREASE HOUSING PRODUCTION IN SMALL AND RURAL STATES

Current Legislation: Notwithstanding the allocation formula, the legislation requires that all states receive a minimum of no less than \$12 million in allocations. Given the unique challenges impacting smaller, primarily rural states, stakeholders have shared that this may not be enough allocation to scale up the program to the size necessary to attract investors and developers to participate.

Revision: Increase the small state minimum from \$12 million to \$21 million to support significantly more housing production and home renovation in those states.

3. PROVIDE GREATER GEOGRAPHIC FLEXIBILITY

Current Legislation: The legislation, initially designed primarily as a community revitalization tool in the wake of the great recession, includes fairly strict requirements for states to target distressed communities:

- Larger states: Must target 60% of their investments in distressed communities (high poverty, low income, low home values); and can provide up to 20% in “other eligible communities” (e.g., low-income rural communities, communities impacted by a natural disaster) and up to 20% to support lower income homeowners in any other community identified by the HFA as needing affordable single family homes.
- Smaller states (i.e., those that receive the minimum, as opposed to per capita, allocation of credits): Must target 60% in distressed communities; and (ii) up to 40% in other eligible communities or to support lower income homeowners in other communities identified by the HFA as needing affordable single family homes.

Many stakeholders expressed concern that these requirements may be overly prescriptive to states, thereby delaying or otherwise limiting development in communities most in need of more affordable homeownership opportunities.

Revision: Merge the two categories of “distressed” communities and “other eligible communities” into a single category of “eligible communities”, and provide more flexibility as follows:

- Larger states: (i) 60% in eligible communities; and (ii) up to 40% to support lower income homeowners in any other community identified by HFA as needing affordable single family homes.

- Smaller states: (i) 50% in eligible communities; and (ii) up to 50% to support lower income homeowners in any other community identified by the HFA as needing affordable single family homes.

In addition, all **Indian Areas** (as defined in the Native American Housing Assistance and Self Determination Act of 1996) would be added to the list of “eligible communities.”

4. ALLOW A PORTION OF THE CREDIT TO BE USED TO SUPPORT THE HOMEBUYER

Current Legislation: The legislation permits a project sponsor to utilize the NHIA credit to offer a below market sales price on the home in order to make it affordable to a lower income borrower. However, this approach could lead to lowering the appraised values of other homes in the community, especially if there is a high concentration of NHIA subsidized sales prices in a given community.

Revision: Certain awardees would have the option, if approved by the Housing Finance Agency, of passing through a portion of NHIA subsidies tax free to the homeowner in order to ensure an affordable sale to a lower income homeowner at a market rate price (e.g., for downpayment assistance, closing costs, to buy down interest rates, etc.). This particular use of funds would be capped at 10% of the total sales price of the home, and only available for homes sold to homeowners making below 120% of AMI.

5. ENSURE THAT THE CREDIT IS SUFFICIENT TO COVER THE ENTIRETY OF THE FINANCING GAP

The objective of the NHIA is to raise sufficient equity from investors to cover the entire development/affordability gap on each home put into production, so that projects can move forward without the need to identify and secure additional subsidies – which would otherwise delay project completions and lead to higher transactional costs. The following two revisions will help ensure this goal is met:

Revision 1: For the credit to cover the full gap and provide a reasonable return to the investor, the investor must be able to claim the stream of NHIA credits (which are dollar for dollar up to the actual gap) as well as losses associated with the investments. While it is likely this is how the IRS would interpret this provision, the legislation is currently silent on the issue of losses. Revised language will clarify that investors are entitled to a basis reduction for the portion of their investment that covers the development/affordability gap.

Revision 2: HFAs currently have the flexibility to assign credits up to 120% of the gap amount, which was contemplated as a tool HFAs could use to attract additional equity in the event that investor pricing does not support the gap amounts. However, it is quite likely that investor pricing may be low in the initial years of the program, given the novelty of the credit

and the fact that it might only start out with a four year authorization. *This revision would provide HFAs the discretion to award credits to cover up to 130% of the actual development or affordability gap, if needed to secure the equity needed to cover the full gap.*

6. ENSURE CONSISTENCY WITH LOCAL BUILDING CODES

Current Legislation: Builders have expressed concerns that HFAs or localities may attempt to add unnecessary new building requirements to NHIA homes, given that the tax credit represents a scarce subsidy controlled by the state. In response to these concerns, the legislation states HFAs shall promulgate *“standards with respect to construction quality which are consistent with building codes or other standards required by the State or local jurisdiction in which the project is located.”*

Revision: In order to add further clarity here, the revised legislation shall state that HFAs *“shall not require an applicant to use building codes or other standards that exceed those required by the state or local jurisdiction in which the project is located.”*; and will also provide clarity on the applicable building codes that HFAs may utilize in jurisdictions without established codes.

7. FACILITATE PARTICIPATION BY SMALL BUILDERS AND REMODELLERS

Current Legislation: Provisions in the current legislation require HFAs to minimize application burdens, particularly for small builders and remodelers; and also to provide outreach and education to small builders and remodelers. The current legislation also requires HFAs to reserve no less than 10% of allocations in any given year to non-profit project sponsors.

Revision: The revised legislation will expand the non-profit set aside to 15%, and allow it to apply to non-profit organizations AND small builders and remodelers.