Low-Income Housing Tax Credits

It is critical to preserve and strengthen the Low-Income Housing Tax Credit.

BACKGROUND

The Tax Reform Act of 1986 established the Low-Income Housing Tax Credit (LIHTC) program to bolster and incentivize public-private partnerships in low-income housing. Since its inception, the program has helped finance more than 3 million affordable rental homes in the United States. The tax credit program remains one of the best tools for creating and preserving affordable housing.

The credits under the program are calculated based on a state's population, and typically are allocated by each state's housing finance agency in accordance with the state's own affordable housing need priorities outlined in its Qualified Allocation Plan. Developers compete for tax credits by submitting proposals to develop affordable rental housing that meets the state's priorities and, if selected, they sell credits to investors to generate the equity investment needed to build and operate the LIHTC property with long-term affordability requirements. To foster the growth of affordable housing, LIHTC properties are required to reserve some proportion of units for low-income families, such as (1) reserving 20% of units for persons making no more than 50% of area median income (AMI); or (2) reserving 40% of units for persons making no more than 60% of AMI.

RECOMMENDATIONS

Strengthen the LIHTC program.

The LIHTC program is a critical source of funding for the preservation and development of affordable rental housing for low-income households. MBA therefore would support congressional efforts to strengthen the LIHTC program by simplifying and streamlining program requirements, preserving existing affordable housing, and enabling the development of innovative affordable housing solutions, particularly in underserved and rural low-income markets.

Address impacts of tax reform on the value of LIHTC program tax credits.

The Tax Cuts and Jobs Act of 2017 preserved the LIHTC program, consistent with MBA's strong advocacy. Separately, however, the Act also lowered the corporate tax rate, which has affected the value of tax credits under the program. MBA recommends that policymakers address resulting adverse impacts on the LIHTC program, and take actions necessary to maintain and strengthen the continued viability of LIHTC as an effective program for financing for low-income housing.

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Permit GSE investments in LIHTC equity on a limited basis.

Before the housing and financial crisis, the Government Sponsored Enterprises (GSEs - Fannie Mae and Freddie Mac) made substantial equity investments in LIHTC properties. However, since then, the GSEs have provided only limited new equity investments in LIHTC funds or properties, with prior FHFA approval. MBA recommends that future GSE LIHTC equity investments should similarly be limited (e.g., limited to targeted markets, such as rural or demonstrably underserved markets, and only for a modest portion of the market), and be subject to prior FHFA approval. We acknowledge that the GSEs also provide important secondary mortgage market support for debt financing of affordable housing, including LIHTC projects, by purchasing and securitizing multifamily mortgages, an activity that we strongly support.

Encourage a level playing field between FHA-approved lenders and government lenders, and promote public-private partnership.

While state and local Housing Finance Agencies (HFAs) play a critically important role in the affordable market, MBA supports adding protections to prevent HFAs from tying allocation of LIHTC tax credits to use of the state HFA's debt financing (consistent with the role described in Tax Reform Act of 1986 report language).

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