

Issue Brief: HOUSING CREDIT
& COVID-19



CHACE
Campaign for Housing and
Civic Engagement

•••• *Stable homes build strong communities.* ••••

A Successful Tool for Increasing the Supply of Affordable Housing

Since 1986, the federal Low-Income Housing Tax Credit (Housing Credit) has financed more than three million homes for low-income households, including veterans, senior citizens, individuals with disabilities, and families with children.

Nationally, the housing credit is, by far, the most common way to preserve, rehabilitate, and increase the supply for committed, affordable housing. Through public-private partnerships, the Housing Credit offers a proven track record of financing safe, decent affordable homes in communities across the Commonwealth.

Types of Housing Credits & Challenges

4% and 9 %

The Housing Credit program includes two main components: the “9 percent” and the “4%.” The 4 percent Housing Credit is generally accessed with the use of Multifamily Housing Bonds (Housing Bonds), used by state and local housing finance agencies to acquire, construct, and rehabilitate affordable multifamily housing for low-income renters.

From 1986 – 2018, more than 96,427 low income Virginia households have been served through the 41,000 affordable homes financed using the 4% credit. These homes have supported 57,541 jobs per one year, generated \$6.46 Billion in cumulative wages and business income, and contributed more than \$2.2 Billion in tax revenue.¹

Today, the 4 percent credit mechanism finances about half of the annual affordable rental housing produced or preserved through the program. To get the maximum equity and value to make affordable housing projects financially feasible, housing bonds must cover at least 50 percent of certain development costs.

Unfortunately, the value of the 4 percent Housing Credit is much lower than Congress originally intended. The actual credit rate fluctuates monthly, based on a formula tied to federal borrowing rates, which are now effectively at 0 percent.

¹4 Percent Housing Credit Impact in Virginia, ACTION Campaign, www.rentalhousingaction.org

The Solutions

Make the 4% Credit More Effective

Congress enacted a minimum rate for the 9% credit as part of the response to the 2008 economic collapse. It would help the program tremendously to do the same for 4%. The ACTION Campaign estimates that approving a minimum for the 4% would add nearly 1700 new units of committed, affordable housing to Virginia.²

Lower the “50 Percent Test” Threshold

The “4 percent” Credit is available for developments that receive 50 percent or more of their financing from Private Activity Bonds, and such developments are responsible for roughly half of all Housing Credit developments.

However, unexpected and increased project development costs due to delays caused by the COVID-19 pandemic are jeopardizing properties’ ability to assemble enough bond financing to meet the “50 percent test,” which puts at risk the properties’ access to associated Housing Credit equity.

Lowering the 50 percent threshold would allow more developments the ability to move forward despite these disruptions related to the pandemic. It would also increase affordable housing production by allowing more developments to access 4 percent Housing Credits.

What Congress Can Do

- Increase Housing Credit allocations by 50 percent over current levels, phased in over five years, to help meet the vast and growing need for affordable housing.
- Enact a minimum 4 percent rate to parallel the minimum 9 percent rate already enacted, providing predictability to the marketplace and substantially increasing production by making more developments financially feasible.
- Enable the Housing Credit to better serve hard-to- reach communities including rural, Native American, high-poverty, and high-cost communities, as well as extremely low-income tenants.
- Make the Housing Credit a more effective tool for preserving the nation’s existing affordable housing inventory by simplifying and aligning rules.
- Preserve long-term affordability by closing the loophole that allows owners to opt out of extended income and rent restrictions through the use of Qualified Contracts.

Other Ways to Improve the Credit Program:

- Clarify that the Housing Credit and Housing Bonds can be used to develop properties specifically for veterans and other special populations.
- Make Housing Credit properties in rural areas eligible for additional credits if needed for financial feasibility.
- Better align the Housing Credit with Violence Against Women Act protections.
- Ensure cost reasonableness is considered when awarding Housing Credits.
- Enable states to maximize Private Activity Bond affordable housing resources by recycling Multifamily Housing Bonds that are used in conjunction with Housing Credits.

²ibid

The **Campaign for Housing and Civic Engagement**, a coalition of the **Virginia Housing Alliance**, is a collaboration between housing advocates and providers throughout Virginia working to bring housing issues to the forefront of elections across the state. **CHACE** is non-partisan and does not endorse candidates. For more information, visit chaceva.org