Written Testimony of

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Main Street Capital Access Act: Empowering Community Banks to Drive Economic Growth

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Chairman Barr, Ranking Member Foster, and Members of the Subcommittee:

Thank you for the opportunity to testify on behalf of my organization and the affordable housing development community. Winterwood Incorporated is a family-owned business based in Lexington Kentucky that has focused on the development and management of affordable rental housing for over forty-five years. Winterwood operates nearly fifteen thousand units of rental housing across a nine-state footprint that covers urban, suburban, and rural markets across our region. The diversity of this portfolio gives my organization unique perspective and expertise on the challenges and opportunities facing the affordable housing industry.

The country continues to face a housing shortage that is particularly acute for working class Americans. Freddie Mac estimates that the nations housing supply is short approximately 3.7 million units. Additional data suggests that the gap for affordable housing options for low to moderate income Americans is even greater. In light of this shortage, it is crucial that the affordable housing industry remain active in the development and preservation of our nations affordable housing supply.

My testimony will focus on the following topics:

1. The challenges facing affordable housing development.
2. Legislative improvements to affordable housing programs.
3. The important partnership between community banks and affordable housing developers.

Affordable Housing Challenges

Rising Costs

Since 2020 the housing construction industry has felt significant inflationary pressures. These pressures have a more direct impact on affordable housing developments due to the structure and regulatory requirements of the major programs utilized in their implementation.

The Low-Income Housing Tax Credit is the largest driver of affordable housing investment across the country. This important program provides federal tax incentives that can be monetized in exchange for equity in multifamily rental housing development. The equity generated from these tax incentives allows developers to keep long term debt low as compared to market rent communities. In exchange for the tax credit, developers agree to limit their rental rates to amounts deemed affordable to individuals making 60% of the area median income, or less, for a period of at least 15 years. Other major affordable housing programs apply similar rent restriction rules in exchange for the benefits afforded by them.

One of the key strengths of the Low-Income Housing Tax Credit program is that it incentivizes private companies to participate in responding to the public need for affordable housing. The benefit of this public private partnership comes from the competitive market advantage private organizations can achieve, however when costs in the marketplace outpace the rent restrictions enforced by these programs, the public benefits become more difficult to utilize. Restricted rents have generally not outpaced the rising costs realized in the last several years. There are several key categories where rising costs have outpaced revenues for projects funded with the Low-Income Housing Tax Credit and similar programs.

Construction Costs

Data from the National Association of Home Builders concluded that between 2020 and 2025 the cost of building material increased by 34%. The increases in certain building materials were even more pronounced: electrical distribution transformers increased 71%, gypsum materials 49%, steel mill products 37%, and ready-mix concrete 35%.

In 2018 Winterwood developed a 198-unit affordable housing project in Jefferson County Kentucky. The cost of construction for this project was approximately $113,000 per unit. A recent 96-unit development completed by Winterwood based on a substantially similar design was completed at an approximate cost of $172,000 per unit. This represents an increase in costs of over 50% while maximum Low-Income Housing Tax Credit rents in Jefferson County over the same period was around 38%. This example underlines the ways in which revenues in affordable housing projects have not kept pace with market cost even in light of substantial increased in area income and allowable rental rates.

Insurance Costs

The National Apartment Association shows that multifamily property insurance increased 55% between 2021 and 2024 while the National Multifamily Housing Council cites data specifically related to affordable rental housing showing increases ranging from 30% to 100% over the same period.

Insurance costs continue to be a challenging factor for the development of affordable rental housing and for the affordability of homeownership in our country.

Cost of Capital

The affordable housing industry and specifically the Low-Income Housing Tax Credit program has been strengthened by various legislative improvements and increases which will be discussed in more detail in other sections of this testimony. As a result of these legislative efforts production of affordable housing has seen notable increases and as a result the supply of tax credits has increased in the market. This increase in supply has been a positive outcome for our industry's ability to bring units to market but has also resulted in an increased cost of capital for affordable rental developments.

The increase in Low-Income Housing Tax Credits available in the market place has not necessarily resulted in a corresponding increase in buyers of these credits. This condition has led to existing investors requiring a higher return on investment (or in industry parlance a reduction in the price per dollar paid for the credits) for their capital investments.

In addition to increased cost of equity, elevated short-term rates have increased the cost of construction financing while higher long-term rates in the bond market have reduced the amount of permanent debt that rent restricted projects can support.

Land Access and Availability

As a consequence of the various challenges with capital and cost increases, affordable housing developers are often required to layer multiple sources of funding in order to make projects financially feasible. This complexity results in longer timelines from project conception to construction commencement. Longer timelines create a competitive disadvantage in land acquisition opportunities. While market rate development faces the same rising costs and stubbornly high interest rates, they are not constrained by restricted rents and can execute projects with less complexity and more flexible timelines. Landowners are often unwilling to wait for the time required to execute an affordable housing development when other buyers can offer more competitive closing timelines.

Legislative Improvements

The 119th Congress has already taken significant steps to improve federal affordable housing programs and resources. I want to thank Chairman Barr and the subcommittee for their work on these various legislative efforts which provide common sense improvement, modernization, or expansion of key affordable housing development tools.

One Big Beautiful Bill Act

The sweeping tax and spending provisions of the One Big Beautiful Bill Act included two key changes to the Low-Income Housing Tax Credit Program. Both changes focused on increasing the supply of available credits. Novogradac (an accounting a research firm focused on affordable housing and community development finance) estimates that the provisions in the One Big Beautiful Bill act could create and additional 1.14 million rental homes over the next 10 years.

Permanent 12% increase in 9% LIHTC allocations.

The 9% Low Income Housing Tax Credit (also referred to as the 70% present value credit) is the most impactful form of this credit as it can often be monetized to generate equity for up to 70% of a projects cost. This high percentage of equity can create the feasibility for projects in rural communities where rents are very low relative to cost, more deeply affordable developments where residents may receive supportive services, and other important outcomes.

The 9% credit is a limited resource that is allocated to projects and developers annually by each states designated Housing Finance Agency through a competitive process. The credit amount that these state's agencies have to allocated is calculated on a per capita basis. In Kentucky it is not unusual for the Kentucky Housing Corporation to only have adequate resources to fund one in four Low-Income Housing Tax Cr

The One Big Beautiful Bill Act permanently increased the annual allocation each state receives by 12%. This important increase will allow state Housing Finance Agencies to fund more affordable housing developments each year.

Reduction of the 50% test to 25% for 4% Low-Income Housing Tax Credit Transactions

The other major Low-Income Housing Tax Credit is the 4% credit (also referred to as the 30% present value credit) which unlike the 9% credit is not limited in an annual allocation. This credit is available to any project that finances a certain percentage of the aggregate basis of the buildings and land with qualifying tax-exempt private activity bonds. The One Big Beautiful Bill Act lowered this percentage from 50% to 25%. This change allows the municipalities to utilize their private activity bonding authority to finance significantly more affordable housing investment.

21st Century ROAD to Housing Act

The 21st Century ROAD to Housing Act is a comprehensive housing plan that reduces red tape, modernizes existing affordable housing programs, and reduces barriers to banks to deploy their capital in response to housing needs an opportunity. The important provisions in this bill are too many to discuss in this testimony so I will focus on three specific sections of the legislation.

Section 203. Community Investment and Prosperity Act.

Section 203 increases the Public Welfare Investment Cap on banks regulated by certain agencies from 15% to 20%. This will reduce the regulatory limitations to investment in Low-Income Housing Tax Credits for many banks who are already active in that market place. As discussed earlier in this testimony, the important increases to the Low-Income Housing Tax Credit enacted in the One Big Beautiful Bill Act have not necessarily been met with an increased demand and the industry has seen an increased cost of capital as a result. With the Public Welfare Investment Cap increase, congress has implemented a complementary reform that will cut regulation in the private market and allow demand to catch up to the increased supply of credits.

Section 501. HOME Investment Partnership Reauthorization and Reform Act.

The Department of Housing and Urban Development's HOME Investment Partnership program is a key financing tool for affordable housing development. As costs have outpaced restricted rents in affordable housing projects, the HOME program often plays and important role in filling the financing "gap" caused by this condition. The reauthorization and modernization of this program will ensure that this program continues to be a tool for the affordable housing industry and that it can be used efficiently.

Section 502. Rural Housing Service Reform Act.

The United States Department of Agriculture operates several important affordable housing programs through its Rural Development activity. The Rural Rental Housing Section 515 program is a direct mortgage initiative that has been used to finance hundred of thousands of affordable housing units in the United States. Many of these projects are aging and in need of significant capital investment to ensure that they continue as viable affordable rental housing option for the communities they serve. With a rising housing shortage in our country and the challenges to bringing new units to market that, it is important that we preserve existing affordable housing while we continue to work to increase supply. The Rural Housing Service Reform Act provision of the 21st Century Road to Housing Act addresses several key programs that will facilitate the preservation of rural housing financed by the USDA.

The first key provision makes the USDA's Multifamily Preservation and Revitalization (MPR) program permanent. Like the HOME program, MPR provides important gap financing for the preservation of USDA financed projects. Making this program permanent will provide more regular funding opportunities and accelerate efforts to renovate important affordable housing in rural communities.

In addition to making the MPR program permanent, the Rural Housing Service Reform Act provisions of this bill permanently expand a pilot program to de-couple Section 521 rental assistance from maturing Section 515 mortgages. Many properties financed by Section 515 mortgages also utilize subsidized rental assistance under The Rural Rental Housing Section 521 program. This rental assistance is a vital tool to house low and extremely low individuals in rural communities. Historically the rental assistance that this program offers has been "tied" to the Section 515 mortgages and if the mortgage were paid off the projects would no longer be eligible for rental assistance. This resulted in operators of USDA financed housing projects carrying very low mortgage balances just to keep the rental assistance so that there would be no adverse impact to the residents or the project revenue. Because the mortgages were not being retired, this effectively shut out private lending to these communities that could have been used for capital improvements and preservations.

The de-coupling provisions of this legislation allow the Section 515 mortgages to be paid while the owners of the projects can enter into Stand Alone Rental Assistance Agreements with the USDA. This change essentially unlocks private capital that can be used to improve these projects and brings new lending opportunities to community banks that serve the communities these properties are located in.

Main Street Capital Access Act

As I will discuss further in this testimony, community banks are essential to the development of affordable housing in the United States. The Main Street Capital Access Act addresses overburdensome regulation that stifles the lending activity of small and mid-sized community banks. One of the strengths that community banks bring to affordable housing finance is an understanding of the challenges and opportunities available in their specific communities. We applaud the efforts of Chairman Hill, Chairman Barr, Ranking Member Foster, members of the House Financial Services Committee, and members of the Subcommittee on Financial Institutions for their work to introduce common sense right sizing of regulation on community banks. We must ensure that our community bankers are spending more time in the community supporting homeowners and local business instead of responding to overburdensome regulation.

Community Banks and Affordable Housing

With all of the challenges facing affordable housing production and with the opportunities to increase this production provided by important legislative reforms, a vital component to continued success in housing production locally is our partnerships with strong community banks. Community banks strengthen our efforts toward housing production in several ways.

Capital Access

The primary participants in the purchase of Low-Housing Tax Credits are banks. As supply of these credits have significantly increased, national and regional banks have more options for their affordable housing investment and are often driven to larger metro market's where their needs for Community Reinvestment Act eligible investments are greater. This can often cause a lower appetite for investment from these larger institutions in suburban and rural markets and forces developers to look at economically driven investors which can significantly increase the cost of capital. Community banks are playing and important role in this market by providing capital investment at reasonable costs to the communities they serve and need Community Reinvestment Act eligible loans and investment. As more Community Banks enter the market for Low-Income Housing Tax Credit investment, the cost of capital decreases resulting in more financially feasible affordable housing projects. It is vitally important that our community banks have access to capital and the regulatory flexibility necessary to continue these important activities.

Understanding Local Issues.

In addition to the practical implications of community banks keeping all markets competitive for affordable housing investment, there are other important benefits to community banking activity in affordable housing. Community banks understand local issues and challenges in ways that national institutions may not. Having flexibility in their investment and lending programs to meet specific local needs is crucial to the success of housing production in markets all across the country. I will highlight a specific example of this from Lexington, Kentucky.

Lexington has unique land use policies that are designed to protect important agricultural land surrounding our city. These policies serve and important role in what makes Lexington a great place to live but the consequence is that there is less land available for housing production. With less land available the land availability challenges I previously referenced are even more pronounced. Ann effort coordinated by the Kentucky Bankers Association HOPE of Kentucky program and led by five Lexington community banks (Central Bank and Trust, Stock Yard Bank, Community Trust Bank, Traditional Bank, and Republic Bank) was established to respond directly to this challenge. These local banks put together a fund to purchase land for the purpose of developing and affordable housing community involving a mix of rental and homeownership opportunities. Lexington's Transformational Affordable Housing Partnership afforded five local affordable housing developers the opportunity to develop a master planned community on land owned by Transylvania University to construct over 230 units of affordable housing. Without this innovative partnership none of the five development participants would have been able to compete for the acquisition of this property in an acceptable timeline. The Kentucky Bankers Association is now leading the effort to replicate this program in other parts of our state.

This example is just one of the many ways that the flexibility of strong and fairly regulated community banks can respond to local issue in communities where they are located.

Conclusion

Our country continues to face a housing shortage and the challenges to increasing our nations supply are considerable. Rising costs of construction, operating expenses like insurance, and the increased cost of capital put pressure on the housing industry's ability to increase demand. These challenges are particularly pronounced in affordable housing developments where restricted rents are not outpacing these rising costs.

It is important that we continue to take the necessary steps to curb the effects of these challenges and increase housing production. Congress has taken historic steps to increase the supply of housing credits, prudently paired this increase with deregulation that will increase demand for these credits, expanded and modernized existing programs to provide supplemental financing tools that combat rising costs, and importantly this committee has introduced legislation to strengthen the essential work community banks are doing in partnering with affordable housing developers to increase housing supply.

Thank you for the opportunity to share this testimony.