Testimony of Robert Moss
Senior Vice President, Boston Capital

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Chairman Camp, Ranking Member Levin, and members of the Ways and Means Committee, thank you for inviting me to appear before you to discuss the Low-Income Housing Tax Credit program.

My name is Bob Moss and I am Senior Vice President for Affordable Housing Origination at Boston Capital, a real estate finance and investment firm that raises capital for investment in affordable rental housing. I also serve as Chairman of the Housing Advisory Group, an organization founded to advocate on behalf of affordable housing.

I appear today on behalf of a broad coalition of over 450 national, state and local affordable housing organizations, the Affordable Rental Housing A.C.T.I.O.N. campaign. Through advocacy and education efforts around the Housing Credit, the A.C.T.I.O.N. campaign focuses on ensuring that low-income working families throughout the nation have access to decent, safe, affordable rental housing. The mission of the A.C.T.I.O.N. campaign is to protect and preserve the Housing Credit as a means of providing a wide variety of affordable rental housing options to low-income families, seniors and veterans in communities across the nation.

The Housing Credit is a product of tax reform. It was enacted into law the last time this Committee undertook the enormous task of reforming the federal income tax system in the Tax Reform Act of 1986. According to the "General Explanation of the Tax Reform Act of 1986" as prepared by the Joint Committee on Taxation, the Housing Credit was enacted because "Congress was concerned that the tax preferences" then in effect "were not effective in providing affordable housing for low-income individuals. Congress believed a more efficient mechanism for encouraging the production of low-income rental housing could be provided through the low-income rental housing tax credit."

Today, the Housing Credit is a great success across the nation. It is generally recognized as the most successful housing production and preservation program in the nation's history.

Program Basics

The Housing Credit is actually two programs: First, it is a capped tax credit program where states receive an annual amount of tax credits based on their population, and then allocate those credits to developers who build rental housing according to the affordable housing needs of the state. Second, it is a bond credit program which combines fewer tax credits with tax-exempt multifamily bonds.

The allocated tax credits are provided to property developments over a ten-year period and are designed to subsidize up to 70% of the cost of new and rehabilitated property, and up to 30% of the cost of acquiring existing affordable housing property. The bond tax credits are also claimed over a ten-year period and are designed to subsidize up to 30% of the cost of the property.

Under the Housing Credit program, developers have the option of setting aside at least 20% of the apartments within a development for residents with incomes at or below 50% of the area median income (AMI); or they may set aside 40% of the apartments to residents with incomes at or below 60% of AMI. In practice, however, most developments are 100% targeted to qualified residents. Residents pay rent limited to 30% of qualifying income.

Developments must remain affordable and subject to IRS compliance rules for 15 years, but the program requires the property to remain affordable for 30 years, though many state and local governments require longer affordability periods.

One of the essential elements of the Housing Credit program that has made it so successful is the role that state housing finance agencies play in administering the program. States annually prepare and publish Qualified Allocation Plans (QAPs) laying out state housing needs and priorities, after soliciting public input through a transparent and open process. States typically use a scoring system that awards points based on meeting the detailed housing priorities of the state. Developers compete to score the highest points under the QAP so that they are awarded an allocation.

The tax credits enable developers to raise equity capital from investors who earn their return from the tax benefits, not from the property's cash flow.

Properties are developed primarily with equity capital instead of debt capital as is typical in other real estate transactions. Affordable housing must rely on equity financing as opposed to debt financing because the limited rents on the property prevent there being sufficient cash flow to service high debt costs.

Affordable Housing Needs

The Housing Credit serves a great need.

Our nation is experiencing a crisis in affordable housing. This is not a new crisis but it continues to worsen every year. Several factors -- including national economic weakness, years of stagnating income at the low-end of the economic spectrum, and increasing demands for rental units -- have exacerbated the affordable housing crisis. This means that a rising percentage of renters face high rent burdens.

One quarter of all renters pay half of their income in rent. Nearly two-thirds of extremely low-income renters (those with incomes at or below 30% of area median income) pay at least half their income in rent. When housing costs claim such a high proportion of family income, fewer resources are available for other basic needs such as food and health care, transportation, and education costs. High housing costs often lead to great stress and family instability.

One major reason low-income households face such high rent burdens is the shortage of affordable housing. For every 100 extremely low-income households, there are only about 36 affordable available rental homes. Nationally, the gap between the number of available affordable rental homes and extremely low-income households that need them is more than 6.5 million homes.

State housing finance agencies recognize this problem. There are too few resources available to address needs. On average, state finance agencies receive applications annually for more than twice as much Housing Credit as they have available, while calls increase for the program to meet more and more needs, including for permanent supportive housing and preservation of federally assisted housing.

Because of the acute affordable housing needs of this nation, and the growing claim on the Housing Credit program to serve various needs, the Housing Commission of the Bipartisan Policy Center recommended in a February 2013 report that annual Housing Credit authority be increased by 50 percent to address these unmet needs.

Meeting the Nation's Affordable Housing Priorities

The Housing Credit is largely run by the states which go through a rigorous process to determine their affordable housing needs. However, there are three priorities required under federal law. The Internal Revenue Code requires that states give preference to developments: a) serving the lowest income tenants; b) obligated to serve qualified tenants for the longest period of time; and c) located in qualified census tracts and the development of which contributes to a concerted community revitalization plan.

These federal priorities have a major impact on how states run their Housing Credit program. While the statute permits targeting to households with incomes up to 60% of AMI or less, according to a recent study by the Furman Center at New York University, the program in fact reaches much further down the income scale where need is greatest.

- About 40% of LIHTC residents have incomes at or below 30% of area median income.
- About 60% of LIHTC residents have incomes at or below 40% of area median income.
- Approximately a third of LIHTC residents are charged rents that are at least 20% below the maximum allowable rent.

LIHTC Program Economic Contribution

Since the Housing Credit program was established in 1986, it has made possible the development of more than 2.5 million affordable rental homes.

Each year about 100,000 new rental homes are developed or preserved under the program.

The program also accounts for about 95,000 jobs annually. This produces almost $8 billion of local income through wages for workers and profits for small businesses, and about $1 billion in taxes and other revenues for local governments.

The Housing Credit serves the full spectrum of housing need, including housing for families, seniors, people with special needs, and the homeless, in all geographic areas, including urban, suburban, and rural areas. States tailor their allocation plans each year to respond to emerging needs; most recently to housing homeless veterans, providing supportive housing for those with special needs, and preserving existing federally assisted housing at risk of being converted to market rate housing. Many local governments have used the Housing Credit over the years to spark neighborhood revitalization and help restore blighted areas.

The Keys to Success

There are several key elements of the program that have led to its success.

First, is the role that state housing finance agencies have in administering the program. This has ensured that property is developed according to local housing needs, and without excessive subsidies. Each state underwrites the award of tax credits to determine the amount of tax credits necessary for financial feasibility and long-term viability. Each state also imposes limitations on developer fees.

Second, is the role of the private sector in providing market discipline to the underwriting of the properties. Almost all equity capital in the program today is raised from large corporate investors who carefully underwrite their investments to ensure the long term viability of the property. Most investment capital is raised from financial institutions, largely commercial banks but also from insurance companies.

Third, the Housing Credit program is well-designed within the Internal Revenue Code. Tax credits are not earned until the project is completed, in operation, and housing qualified residents. This means the real estate risk is borne by the private sector not the federal government. The equity capital from investors is contributed up front to develop the properties, but the tax credits are received over ten years and subject to credit recapture over 15 years.

This threat of recapture imposes a powerful discipline on the program that ensures the properties are underwritten correctly at the outset and managed correctly throughout the compliance period. As a result, according to a 2011 study by the national accounting firm CohnReznick, the cumulative foreclosure rate for Housing Credit financed property since the program was created in 1986 is less than 1%. This is a truly remarkable record, far lower than any other real estate asset type.

Conclusion

Unlike most tax expenditures before this Committee, which largely encourage activity at the margin -- activity that would occur at some level without the tax support -- there would be virtually no affordable housing development without the Housing Credit program.

The reason is that the construction of affordable multifamily housing, rented to lower income families at controlled rents, is fundamentally uneconomic without a subsidy.

Housing would not be built or preserved but for the capital contributed because of the Housing Credit. It is the key financing source in almost all affordable rental housing development in this country.

This Committee did great work in 1986 when it created the Housing Credit program. You designed a critically important program to maximize its efficiency, ensure investment occurs where it is most needed, and harness private sector business discipline to achieve an important public policy objective.