J. Ronald Terwilliger
CENTER FOR HOUSING POLICY

March 3, 2023

The Honorable Ron Wyden
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Letter for the Record: Senate Finance Committee Hearing, "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families"

Dear Chairman Wyden and Ranking Member Crapo,

The nation's severe undersupply of affordable homes is an urgent problem demanding a bipartisan legislative response. Over the past 15 years, the United States has underbuilt housing by millions of homes, resulting in rising and often deeply unaffordable housing costs. This mismatch between housing demand and the lack of affordable and available supply is negatively impacting families and communities across the country. Not surprisingly, Americans are eager for Congress to take remedial action. According to a recent survey commissioned by the Bipartisan Policy Center (BPC), a strong majority of voters from both parties agree that increasing the supply of affordable homes should be a Congressional priority.

BPC's J. Ronald Terwilliger Center for Housing Policy was launched in 2021 to advance bipartisan policies supporting access to affordable housing. We are driven by the belief that every American, regardless of wealth or background, should have the opportunity to live in a decent, safe, and affordable home. Today, however, too many households are burdened by steep rents, often in excess of 50% of their monthly paychecks. Homeownership, our country's primary tool for family wealth-building, is increasingly out of reach for potential first-time homebuyers. Each day, hundreds of thousands of Americans live on the streets as part of a growing homeless population.

Tax policy is a powerful tool to boost affordable housing supply and enhance housing affordability. As outlined in BPC Action's legislative proposal for the 118th Congress, we believe the enactment of the following recommendations—each with bipartisan support—would meaningfully advance these important goals. If enacted into law, the proposals would cumulatively finance the development of approximately 2.5 million affordable homes and support critical preservation efforts.

Enhance and Expand the Low-Income Housing Tax Credit (LIHTC) Program

The LIHTC program is the largest and most effective federal program supporting the development and rehabilitation of affordable rental homes. One of the primary barriers to developing affordable housing is it's too expensive to build. The LIHTC is a market-based incentive helping cover the gap between the cost of developing a property and the income generated from rent.

The Affordable Housing Credit Improvement Act—introduced in the last Congress by Sens. Maria Cantwell (D-WA), Todd Young (R-IN), Ron Wyden (D-OR), and Rob Portman (R-OH)—included several key provisions to enhance and expand the LIHTC program in ways that would finance more than two million affordable rental homes over the next decade. Specifically, the legislation would:

- Increase LIHTC allocations by 50% over current levels to help meet the vast and growing need for affordable rental housing in cities of all sizes as well as in rural and Native American communities.
- Reduce the amount of bond financing needed to access credits by lowering the so-called "50% test." The current standard is an impediment to affordable housing development, and this reform would allow for a more efficient use of limited private activity bond resources.
- Provide up to a 50% basis boost for developments serving extremely low-income households in at least 20% of the apartments, thereby facilitating more affordable housing for populations with special needs, such as formerly homeless veterans.

Strengthen the Long-term Affordability Requirements in the LIHTC

The LIHTC requires rental homes built under the program remain affordable to residents for at least 30 years. Several states and localities have established affordability periods significantly longer than the federal requirement. These extended affordability periods range in duration from 40 years to "in perpetuity."

Evidence suggests extended affordability periods have not diminished investor interest in the LIHTC program. To help preserve the stock of affordable LIHTC homes and enable a greater share of resources to be used to support a net increase in affordable housing, Congress should establish an "in perpetuity" affordability standard for new LIHTC units. In taking this action, Congress should ensure there is sufficient funding or additional tax credits available to recapitalize and re-syndicate properties as needed. One option would be to exclude preservation activities like re-syndication from counting against the multifamily bond cap.

Create a Tax Credit to Support Building and Rehabilitating Owner-Occupied Homes in Distressed Communities

Unfortunately, there is no incentive similar to the LIHTC that supports the development of affordable owner-occupied housing. As with affordable rental housing, the gap between the cost of construction and the sales price is often a major barrier impeding increases in the supply of entry-level homes for sale. The severe shortage of entry-level housing prevents many low- and middle-income families from achieving homeownership, the primary wealth-building tool in America.

The Neighborhood Homes Investment Act (NHIA), introduced in the last Congress by Sens. Ben Cardin (D-MD) and Rob Portman with robust bipartisan co-sponsorship, would create a new tax credit similar to the LIHTC but addressing the shortage of entry-level homes for sale. The credit would help mobilize private investment to finance the construction and rehabilitation of approximately 500,000 homes for lower- and moderate-income homeowners in distressed areas over the next decade.

We thank the Committee for convening this important hearing and stand ready to assist in advancing these and other bipartisan policies to increase the supply of much-needed affordable housing.

Sincerely,

Dennis Shea

Dennis C. Shea
Executive Director
J. Ronald Terwilliger Center for Housing Policy