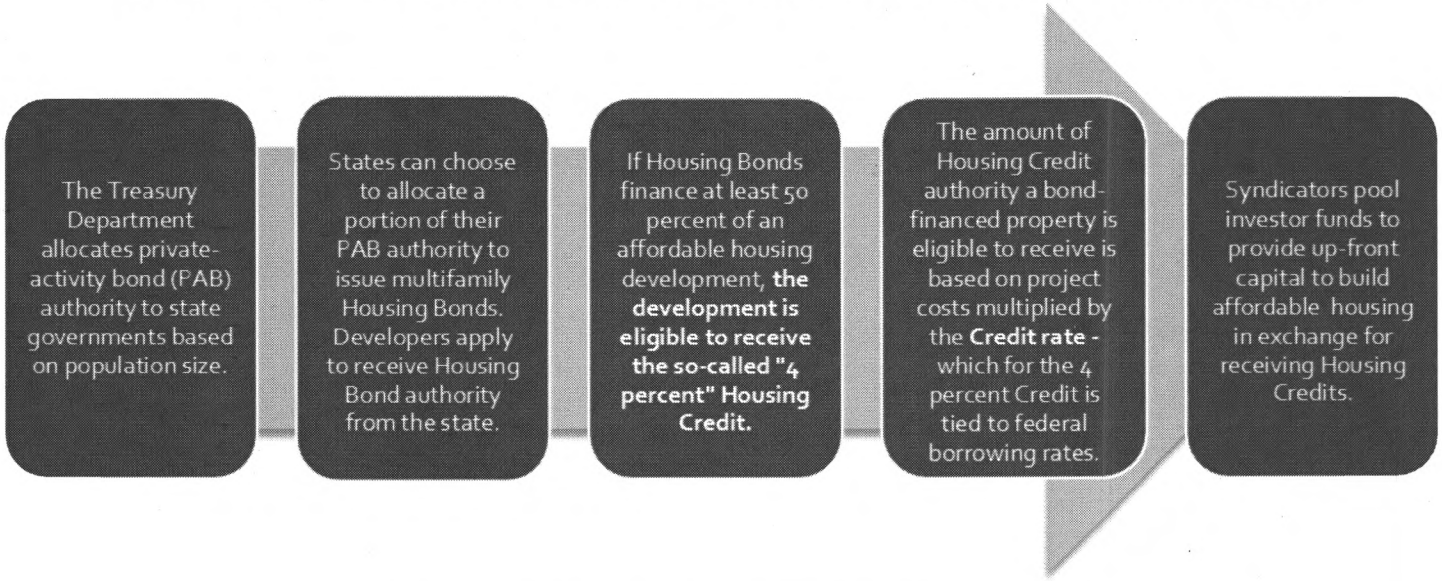
AFFORDABLE RENTAL HOUSING A.C.T.I.O.N.
A Call To Invest in Our Neighborhoods

ESTABLISHING A MINIMUM 4 PERCENT

LOW-INCOME HOUSING TAX CREDIT RATE

The Low-Income Housing Tax Credit (Housing Credit) is our nation's most successful tool for encouraging private investment in the production and preservation of affordable rental housing. Since its inception in 1986, the Housing Credit has been used to develop or finance 3 million apartments, providing roughly 7 million households with homes they can afford.

HOW THE 4 PERCENT HOUSING CREDIT & HOUSING BONDS WORK



WHAT ARE HOUSING CREDIT RATES?

The Housing Credit is not intended to cover the full costs of a development, rather, it covers a portion of those costs as determined by the **Housing Credit rate**. The "Credit rate" is a percentage which is applied to eligible project costs to determine the maximum amount of Housing Credit authority a development can receive. Investors then pay a market-based price for a given amount of Housing Credits, yielding equity to build the affordable housing. A lower Credit rate translates to less equity for financing affordable rental housing. There are two separate Housing Credit rates, dependent on the nature of the construction project.

The "4 percent" Credit

yields an approximate subsidy of **30 percent** of the eligible low-income unit costs for the **acquisition of existing properties** and **new development or rehabilitation in conjunction with tax-exempt private-activity bonds**.

The "9 percent" Credit

yields an approximate subsidy of **70 percent** of the eligible low-income unit costs for **new construction** and **substantial rehabilitation** projects that do not use tax-exempt bond financing.

When the Housing Credit was first created in 1986, Congress set the 9 percent and 4 percent Credit rates to reflect market conditions of the time, but the rates were floating – fluctuating monthly according to a formula related to federal borrowing rates. Consequently, the applicable Credit rates historically have not been 4 percent and 9 percent. **Recently, as interest rates have sunk to historic lows, Credit rates have been much lower than originally intended, resulting in less equity available to build affordable housing using the Housing Credit.**

There is about 15 to 20 percent less Housing Credit equity available through the 4 percent Credit for affordable housing development today than the original rates provided.

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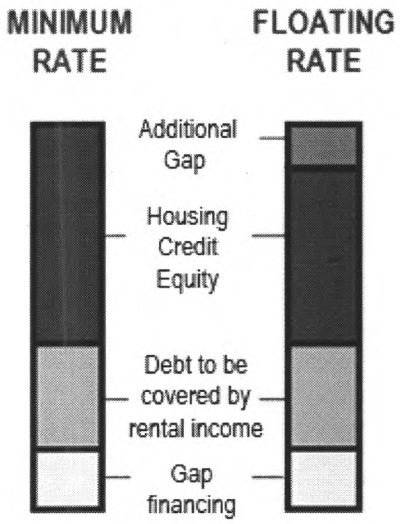
LOW-INCOME HOUSING TAX CREDIT RATE

Recognizing the issue of declining rates on the program, Congress permanently enacted a minimum 9 percent Credit rate in 2015 with bipartisan support. However, the floating 4 percent Credit rate still limits the equity available to build affordable rental homes. Establishing a 4 percent Credit rate will allow for more subsidy to build affordable housing.

A provision in the **Affordable Housing Credit Improvement Act**, bipartisan legislation to strengthen the Housing Credit sponsored by Sens. Maria Cantwell (D-WA) and Finance Committee Chairman Orrin Hatch (R-UT) in the Senate (S. 548) and Reps. Carlos Curbelo (R-FL-26) and Ways and Means Committee Ranking Member Richard Neal (D-MA-1) in the House (H.R. 1661), **would establish a permanent minimum 4 percent Credit rate.**

There are several benefits to establishing a minimum 4 percent Credit rate:

- **Filling critical financing gaps.** As 4 percent Credits only cover about 30 percent of eligible costs, these projects have a much larger financing gap than 9 percent projects, which must be filled by either debt or other subsidies. Combined with tax-exempt private activity bonds, more equity in 4 percent Credit developments would help close the gap between the costs of developing homes and the financing available to provide affordable rents to low-income families.
- **More market certainty in Housing Credit financing.** A minimum 4 percent Credit rate provides predictability for developers, allowing them to target more apartments to extremely low-income households at affordable rents and making more types of development viable, especially for preservation.
- **More flexibility and discretion for states to finance high-priority developments.** Developing affordable housing for special populations, such as veterans or formerly homeless people, requires more subsidy. With less equity resulting from the floating rate, it can be difficult to make such projects financially feasible. A minimum 4 percent rate would allow the Housing Credit to build more of these high-priority projects.



EXAMPLE OF FINANCING A 4 PERCENT HOUSING CREDIT PROPERTY

	With the 4 Percent Floor	Without the 4 Percent Floor	
TOTAL PROJECT COSTS	$11 million	$11 million	
HOUSING CREDIT ELIGIBLE COSTS	$10 million	$10 million	*Land and certain other costs are not eligible to be paid for by the Housing Credit*
HOUSING CREDIT RATE	**4%**	**3.32%**	*December 2018 rate*
CALCULATED ANNUAL HOUSING CREDITS	$400,000	$332,000	
TOTAL HOUSING TAX CREDITS FOR SYNDICATION	$4.000 million	$3.320 million	
TAX CREDIT PRICE PER CREDIT DOLLAR (MARKET DETERMINED)	$0.90	$0.90	
HOUSING CREDIT EQUITY	**$3.600 million**	**$2.988 million**	***17% less equity available without the 4 percent floor***
TAX-EXEMPT BOND FINANCING	$6 million	$6 million	50% must be financed with bonds to receive credits
FINANCING GAP THAT MUST BE COVERED BY SOURCES OTHER THAN EQUITY AND BONDS	**$1.4 million**	**$2.012 million**	***$612,000 additional gap without the 4 percent floor***