October 2022

LIHTC REFORM: EXPANSION MUST SERVE HOUSEHOLDS WITH THE GREATEST NEEDS

Across the nation, the lowest-income and most marginalized renters are struggling with skyrocketing rents, increased evictions, and more homelessness, spurred in large part by a severe shortage of homes affordable and available to people with the lowest incomes.

The Low-Income Housing Tax Credit, or LIHTC is the primary source of financing for the construction and preservation of affordable housing. While it is an important resource, LIHTC, on its own, rarely builds or preserves homes affordable to households with the lowest incomes, those with the greatest and clearest needs.

Congress has the opportunity help address this challenge in a tax extenders package by **pairing any expansion of LIHTC with key reforms**, including those already passed in the US House of Representatives through the Build Back Better Act and included in the bipartisan Affordable Housing Credit Improvement Act (AHCIA), to ensure that the tax credit program better serves people experiencing or at risk of homelessness.

Key Reforms:

Congress should pair any expansion of LIHTC with reforms, including:

- **A 50% basis boost for housing developments where at least 20% of units set aside for households with extremely low incomes or those experiencing homelessness, as included in the House-passed Build Back Better Act and AHCIA.** By expanding the current basis boost from 30% to 50%, Congress can allow LIHTC to better target extremely low-income tenants at rents that are affordable to them. This reform would also facilitate the development of more affordable housing for populations with special needs, such as formerly homeless individuals and people with disabilities.

- **An 8% set-aside of tax credits to help offset the costs to build these homes, as included in the House-passed Build Back Better Act.** To ensure that more housing developments built using LIHTC serve extremely low-income households, Congress should set aside 8% of the program's resources for developments where at least 20% of units set aside for households with extremely low incomes or those experiencing homelessness.

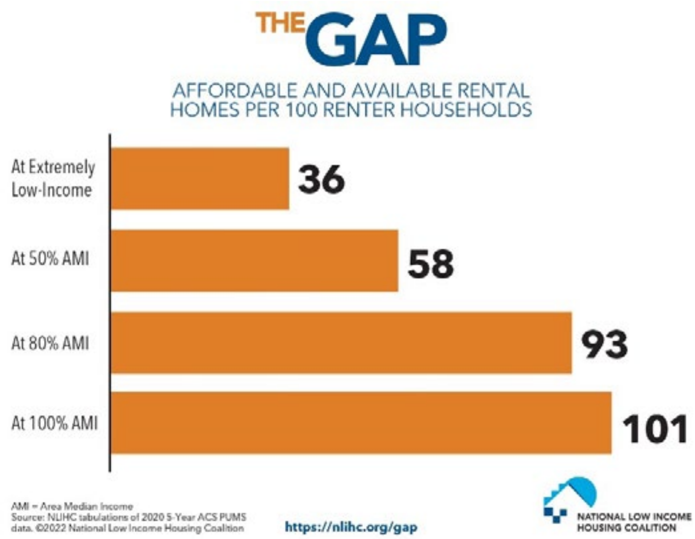
- **Changes to designate tribal communities as "Difficult To Develop Areas (DDAs)."** Most tribal areas do not qualify under current DDA standards. This reform, as included in the bipartisan AHCIA, would make housing developments in tribal communities automatically eligible for a 30% basis boost. In turn, this change would make it more financially feasible for developers to build affordable homes in these areas.

- **Changes to designated rural communities as "Difficult To Develop Areas (DDAs),"** making housing developments in rural America automatically eligible for a 30% basis boost.

Background: Why Expansion of LIHTC Must be Paired with Reform

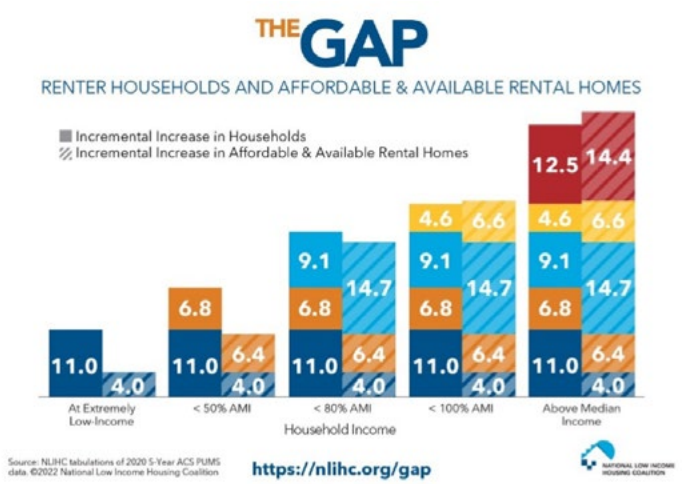
The shortage of affordable rental homes is primarily concentrated among extremely low-income households.

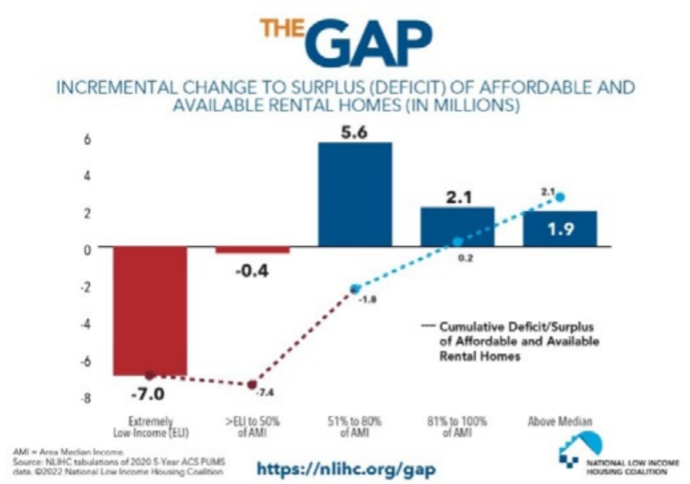
An underlying cause of America's housing and homelessness crisis is the severe shortage of homes affordable and available to extremely low-income households. Nationally, there is a shortage of 7 million affordable and available apartments for these households. For every 100 extremely low-income renter households, there are only 36 homes affordable and available to them. Every state and congressional district is impacted and and no state has an adequate supply of housing for extremely low-income households.



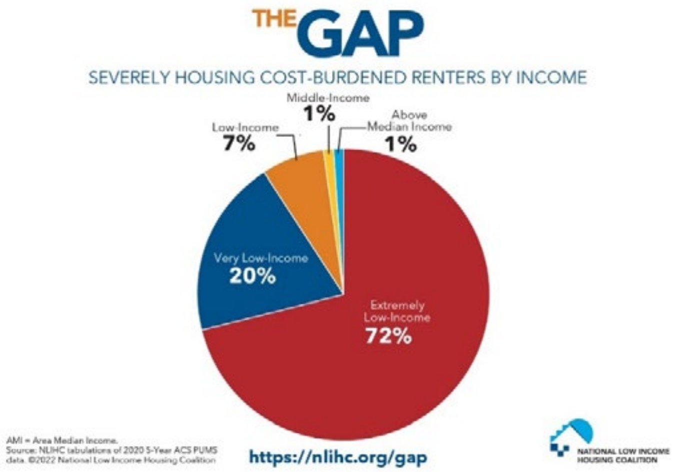
Nearly the entire shortage of affordable homes is concentrated among extremely low-income households. As shown in the graphs below, the shortage of affordable and available rental homes declines – and completely disappears – as increasingly higher income groups are considered.

This shortage is caused by a market failure; the private sector cannot build or operate homes affordable to extremely low-income households without federal, state, or local subsidies to offset costs.





Without affordable options, more than half a million people in America experience homelessness on any given night, and millions more are at risk. Three in four (71%) of America's lowest-income households pay at least half of their limited incomes on rent, leaving few resources to put groceries on the table, cover medical costs, or meet their other basic needs. Of all households paying at least half of their income on rent, the majority (72%) have extremely low incomes.



Despite the incredible need, the nation's primary source of financing to build and preserve affordable homes – LIHTC – is not sufficient on its own to build homes affordable to extremely low-income households.

LIHTC is targeted to build homes affordable to households earning up to 50% or 60% of the Area Median Income. As a result, extremely low-income households generally can only afford rent in a LIHTC development if they receive rental assistance. The majority (58%) of extremely low-income renters living in LIHTC developments who do not receive rental assistance are severely cost-burdened, paying more than half of their limited incomes on rent. One emergency or unexpected expense could send these households into homelessness.

Tribes and rural America need additional support to make LIHTC work for their communities.

Indigenous people living in tribal nations have some of the worst housing needs in the United States. They face high poverty rates and low incomes, overcrowding, lack of plumbing and heat, and unique development issues. Financing properties in these areas is particularly challenging. Despite the growing need for safe, decent homes, however, federal investments in affordable housing on tribal lands have lagged for decades, particularly in more rural and remote areas.

Likewise, rural communities face unique barriers to developing affordable rental homes, including lower incomes, higher poverty rates, and lack of access to private capital. As a result, far too many rural families live in rental homes that are unaffordable or are in substandard condition.

Both tribal nations and rural communities need additional support to better access LIHTC.

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