

LIHTC REFORM: EXPANSION MUST SERVE HOUSEHOLDS WITH THE GREATEST NEEDS



Across the nation, the lowest-income and most marginalized renters are struggling with exorbitant rents, increased evictions, and more homelessness. While the Low-Income Housing Tax Credit, or LIHTC, is the primary source of financing for the construction and preservation of affordable housing, the tax credit, on its own, rarely builds or preserves homes affordable to households with the greatest and clearest needs.

NLIHC urges Congress to pair any expansion of LIHTC with three key reforms – outlined below – from the bipartisan Affordable Housing Credit Improvement Act introduced by Senators Maria Cantwell (D-WA) and Todd Young (R-IN) in the Senate and Representatives Darin LaHood (R-IL) and Suzan DelBene (D-WA) in the House to better serve people experiencing or at risk of homelessness. These reforms will help the tax credit more effectively address an underlying causes of the housing crisis – the shortage of rental homes affordable to people with the lowest incomes.

Key Reforms:

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

- 1. Expanding the basis boost for housing developments that set aside at least 20% of units for households with extremely low incomes or those experiencing homelessness.** 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.
- 2. Designating 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.
- 3. Designating 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

Our nation’s shortage of affordable rental homes is primarily concentrated among extremely low-income households, but too often, LIHTC does not reach this population.

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 7.3

million affordable and available apartments for these households. For every 100 extremely low-income renter households, there are only 33 homes affordable and available to them. Every state and congressional district is impacted and no state has an adequate supply of housing for extremely low-income households.

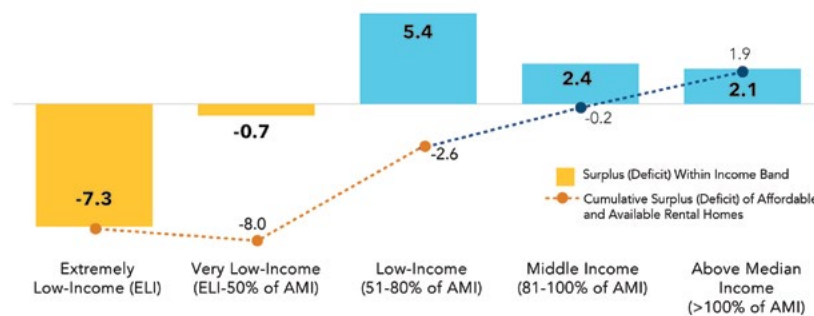
Nearly the entire shortage of affordable homes is concentrated among extremely low-income households. As shown in the graphs below, the shortage of affordable and available rental homes declines – and completely disappears – as increasingly higher income groups are considered.

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 (585,000) in America experience homelessness on any given night in 2022, and millions more are at risk. Three in four (73%) 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.

GAP

THE MOST SEVERE SHORTAGE OF AFFORDABLE AND AVAILABLE HOUSING IS FOR EXTREMELY LOW-INCOME RENTERS
INCREMENTAL CHANGE TO SURPLUS (DEFICIT) OF AFFORDABLE AND AVAILABLE RENTAL HOMES, 2021 (IN MILLIONS)



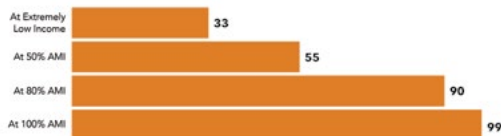
Source: 2021 ACS PUMS

<https://nlihc.org/gap>



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THE RELATIVE SUPPLY OF AFFORDABLE AND AVAILABLE RENTAL HOMES INCREASES WITH INCOME
AFFORDABLE AND AVAILABLE RENTAL HOMES PER 100 RENTER HOUSEHOLDS, 2021



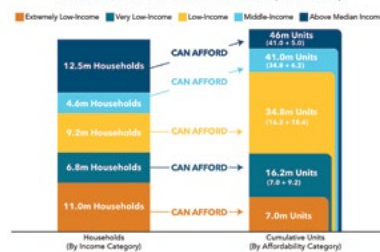
Source: 2021 ACS PUMS
 AMI = Area Median Income

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RENTAL UNITS AND RENTERS IN THE U.S., MATCHED BY AFFORDABILITY AND INCOME CATEGORIES (IN MILLIONS)



Source: NLIHC tabulations of 2021 ACS PUMS data.

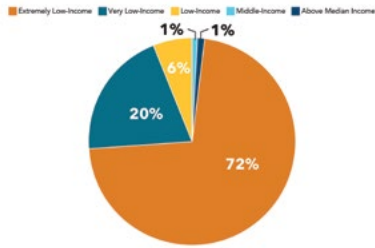
<https://nlihc.org/gap>





EXTREMELY LOW-INCOME RENTERS MAKE UP MAJORITY OF SEVERELY COST-BURDENED RENTERS

SEVERELY COST-BURDENED RENTER HOUSEHOLDS BY INCOME GROUP, 2017



Source: NLIHC tabulations of 2017 ACS PUMS data.

<https://nlihc.org/gap>



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.

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

Indigenous people living on Tribal lands 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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