CRITICALLY NEEDED REFORMS TO THE LOW-INCOME HOUSING TAX CREDIT

Today, more than 650,000 people – the highest level on record – experience homelessness on any given night and 10 million more households are at risk of homelessness. Despite the clear need, states and communities often struggle to use the Low-Income Housing Tax Credit (LIHTC) to prevent and address homelessness. While LIHTC is the largest federal program designed to build and preserve affordable rental homes, apartments built with the tax credit are often too expensive for those who need affordable housing the most. Moreover, rural and Tribal communities often struggle to use the tax credit.

NLIHC urges Congress to pair any expansion of the Low-Income Housing Tax Credit with bipartisan reforms to better serve households with the greatest needs, by:

1. **Expanding the "ELI Basis Boost" to make it easier to build and preserve rental homes affordable to households experiencing or at risk of homelessness.**
2. **Designating Tribal and rural areas as "difficult to develop" to allow more housing development in these communities.**

WHO ARE EXTREMELY LOW-INCOME RENTERS?

Extremely low-income renter households account **for 11 million** of the nation's 45.1 million renter households. These renters have incomes below 30% of the Area Median Income (AMI) or the federal poverty guideline, whichever is greater. Because of their low incomes and the severe shortage of rental homes affordable to them, extremely low-income renters are hardest hit by the housing crisis and are most at risk of homelessness.

Extremely low-income households are often headed by seniors, people with disabilities, or workers earning low wages, including construction workers, retail or restaurant workers, home health aides and nursing assistants, office support staff, and administrative assistants, and others.

Because of systemic racism, households of color are much more likely to be extremely low-income renters than white households.

THE NEED FOR REFORM

The Low-Income Housing Tax Credit is our nation's largest source of financing for affordable rental housing. Apartments built with the tax credit, however, are typically too expensive for extremely low-income households, who make up almost half (49.1%) of LIHTC tenants.

According to the National Council of State Housing Agencies, only a small share (16%) of new apartments built using LIHTC are affordable to renters with the greatest needs – renters with extremely low incomes. When the tax credit is used to preserve existing apartments, an even smaller share of these rental homes is affordable to extremely low-income households.

As a result, the majority (58%) of extremely low-income renters living in developments financed with LIHTC who do not receive additional support through rental assistance are severely cost-burdened, paying more than half their limited income on rent.

Despite living in "affordable" homes, these households are always one unexpected expense or emergency away from falling behind on rent and facing eviction, and in worst cases, homelessness. These challenges, in turn, make it more difficult for communities to address homelessness.

REFORM 1: EXPAND THE ELI BASIS BOOST

The *Affordable Housing Credit Improvement Act* (S.1557, H.R.3238), a broad, bipartisan bill introduced by Senators Maria Cantwell (D-WA) and Todd Young (R-IN) and Representatives Darin LaHood (R-IL) and Suzan DelBene (D-WA), includes a key reform, the ELI Basis Boost, to help communities better serve households experiencing or at risk of homelessness.

The ELI Basis Boost offers additional tax credits to developers who agree to set aside at least 20% of apartments in a LIHTC-financed housing development for households with extremely low incomes. **By expanding the current basis boost from 30% to 50%, Congress can make it more financially feasible for developers to build apartments at rents that are affordable to households with the greatest needs.** This reform would also make it easier to build rental homes for people with special needs, including seniors, people with disabilities, formerly homeless individuals, and others.

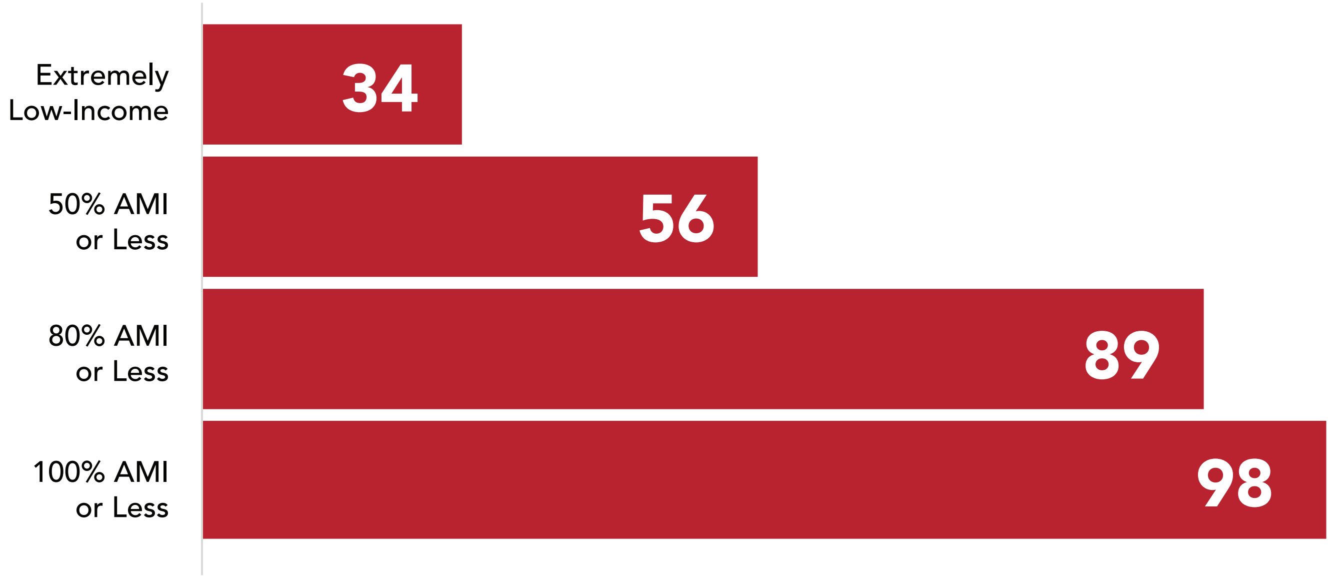
BACKGROUND: THE SHORTAGE OF AFFORDABLE HOUSING

While rental housing supply is needed at all income levels, the shortage of affordable rental homes is primarily concentrated among extremely low-income households. This shortage is an underlying cause of America's housing and homelessness crisis. Every state and congressional district is impacted, and no state has an adequate supply of housing affordable to extremely low-income households.

Of the 7.1 million homes affordable to extremely low-income households, 3.4 million affordable units are occupied by households with a higher income, making them unavailable to extremely low-income renters. As a result, only 3.7 million rental homes are affordable and available for the 11 million extremely low-income households, meaning this group faces a shortage of 7.3 million affordable and available homes. This translates into only 34 homes affordable and available for every 100 extremely low-income renter households (Figure 1).

FIGURE 1. The Relative Supply of Affordable and Available Rental Homes Increases with Income

AFFORDABLE AND AVAILABLE RENTER HOMES PER 100 RENTER HOUSEHOLDS, 2022



SOURCE: 2022 ACS PUMS.
AMI = AREA MEDIAN INCOME

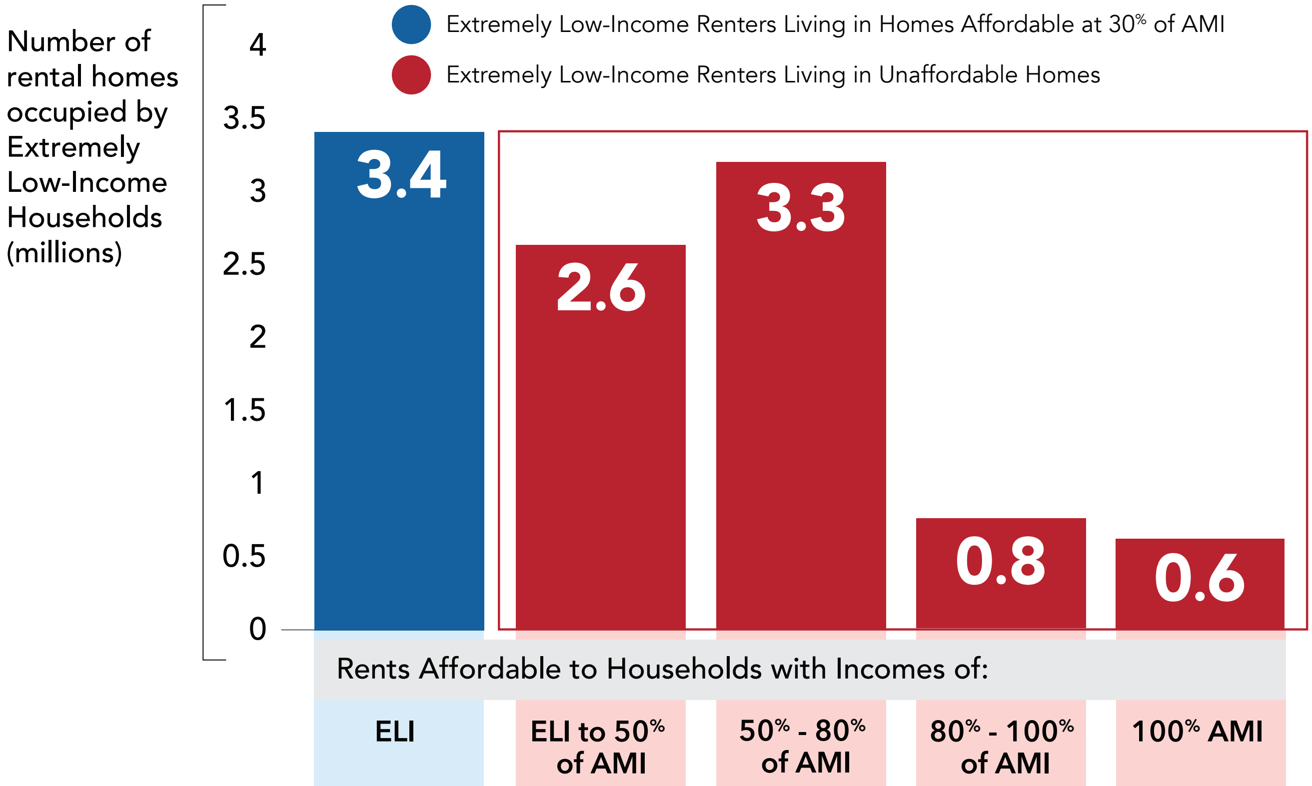
The relative supply of affordable and available rental homes improves as incomes increase, because more housing becomes available to renters at higher incomes. **The shortages shown for each income group are cumulative, so the apparent shortage for renters with incomes above 50% of AMI can be explained by the significant shortage of affordable and available rental homes for those with incomes below 50% of AMI**.

Increasing the supply of deeply affordable homes for extremely low-income renters benefits all households – not only the extremely low-income households who may live in those apartments. By building new deeply affordable rental homes, extremely low-income renters can move out of homes affordable to renters with higher incomes, decreasing competition in the housing market and reducing rent pressure.

Because of the severe shortage of affordable and available rental homes for them, a total of 7.3 million extremely low-income renters occupy rental homes they cannot afford; homes that otherwise would be available to renters with relatively higher incomes who could afford them (see Figure 2). More than 2.6 milion extremely low-income renters live in rental homes that would otherwise be affordable and available to renters with incomes at 50% AMI; and 3.3 million live in rental rental homes that would otherwise be affordable and available to renters with incomes at 80% of AMI.

FIGURE 2. 7.3 million extremely low-income renters live in housing that could otherwise be affordable and available to renters with higher incomes

EXTREMELY LOW-INCOME RENTERS' HOMES BY AFFORDABILITY



SOURCE: 2022 ACS PUMS. AMI = AREA MEDIAN INCOME ELI = EXTREMELY LOW-INCOME

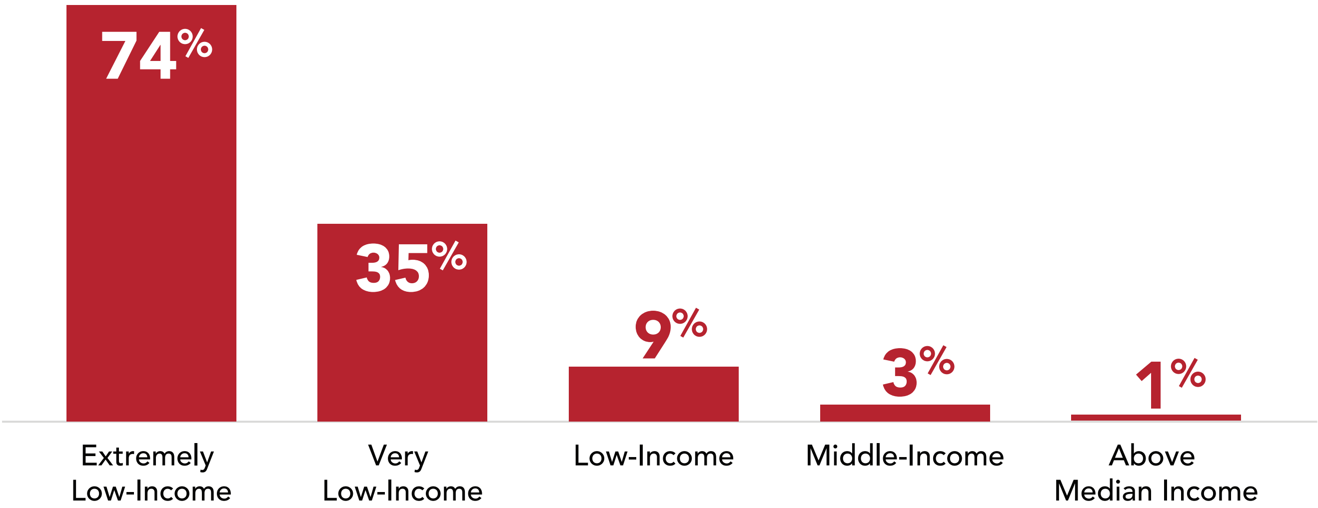
This shortage of rental homes affordable to extremely low-income households is caused by a market failure; the private sector cannot build or operate homes affordable to extremely low-income households without federal, state, or local subsidies to offset costs. This is why it is critical that policymakers ensure scarce federal subsidies are used as effectively as possible. Despite the clear need for more deeply affordable rental homes, the Low-Income Housing Tax Credit typically builds and preserves rental homes affordable to very low-income households earning 50% or 60% of AMI.

Without affordable housing options, 74%, or 8 million of America's lowest-income households, disproportionately people of color, are severely cost-burdened, paying at least half their income on rent and utilities (Figure 3). Though only one in four renters have extremely low incomes, they comprise more than two-thirds (69%) of all severely cost-burdened renter households (Figure 4).

With so much money going to keep a roof over their heads, renters with the lowest incomes are forced to live precariously, always one unexpected expense – for a broken-down car or unreimbursed medical bill – away from housing instability, eviction, and, in the worst cases, homelessness.

FIGURE 3. Extremely Low-Income Households Disproportionately Experience Severe Housing Cost Burdens

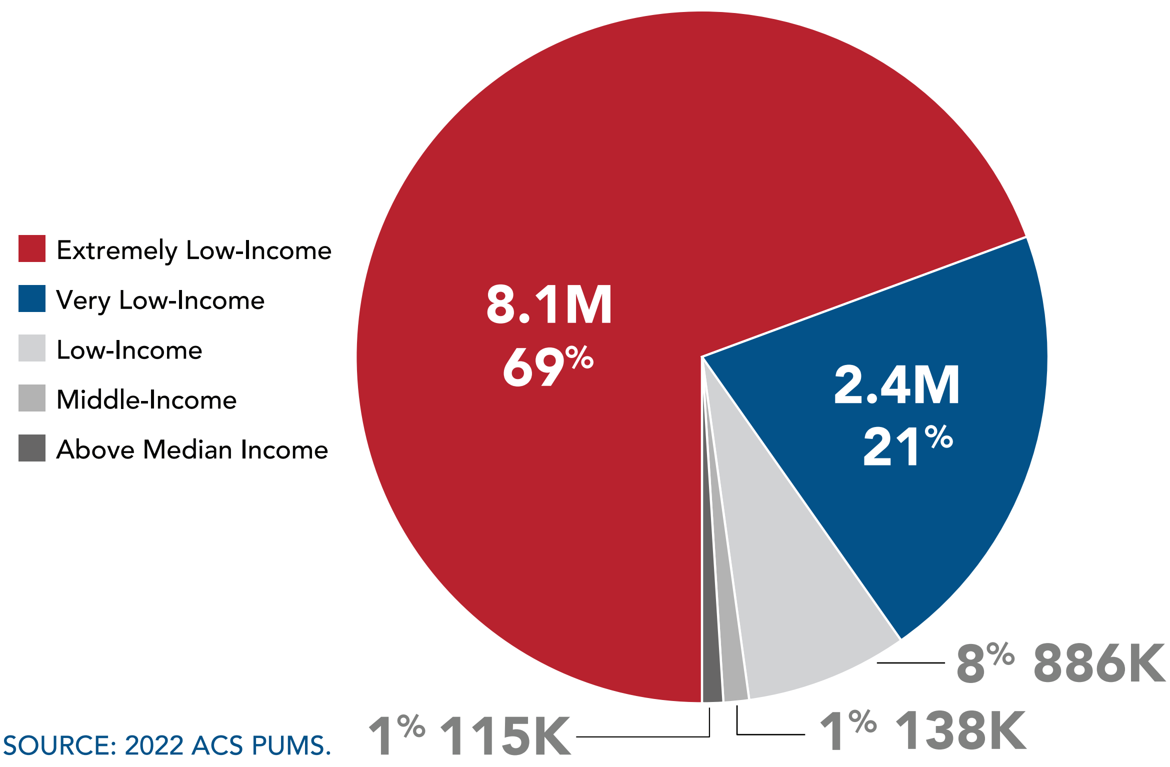
RENTER HOUSEHOLDS WITH SEVERE HOUSING COST BURDENS BY INCOME, 2020



SOURCE: 2022 ACS PUMS.

FIGURE 4. Extremely Low-Income Renters Make Up Majority of Severely Cost-Burdened Renters

SEVERELY COST-BURDENED RENTER HOUSEHOLDS BY INCOME, 2022



SOURCE: 2022 ACS PUMS.

REFORM 2: FACILITATE DEVELOPMENT IN TRIBAL AND RURAL COMMUNITIES

The *Affordable Housing Credit Improvement Act* (S.1557, H.R.3238) also includes reforms to make it more financially feasible to build or preserve affordable rental homes in Tribal and rural areas.

In addition to expanding the ELI Basis Boost, **NLIHC urges Congress to designate Tribal and rural communities as "difficult to develop,"** a designation that would allow developers to access an automatic 30% basis boost for building rental homes in these 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 unafford-able or are in substandard condition.

LONG-TERM SOLUTIONS

While reforming the Low-Income Housing Tax Credit is important, Congress must also invest significant resources in long-term solutions to fully address the affordable housing and homelessness crises. Long-term solutions include preserving and expanding rental homes affordable to people with the lowest incomes through investments in public housing and the national Housing Trust Fund, making rental assistance universally available to all eligible households, creating a permanent emergency rental assistance program to stabilize families in a crisis, and strengthening and enforcing robust tenant protections.

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