CALIFORNIA HOUSING CONSORTIUM

CHC 2019 Federal Priorities

1. **Strengthen and Expand the Low Income Housing Tax Credit (Housing Credit)**
   For over 30 years, the Housing Credit has been a model public-private partnership program, bringing to bear private sector resources, market forces, and state-level administration. LIHTC is the nation's most successful affordable housing finance program, producing more than 335,000 units that provide affordable homes for more than 780,000 low-income California families, seniors, veterans, and people with disabilities. Virtually no affordable rental housing development would occur without the Housing Credit.

   We thank Congress for including in last year's omnibus spending bill:

   - **A 12.5 percent increase in Housing Credit allocation, effective for four years (2018-2021).** This is the first expansion of the Housing Credit in ten years. The cap increase of 12.5 percent for four years beginning in 2018 will allow for the construction or rehabilitation of nearly 29,000 additional rental homes for low-income families, seniors, veterans, and persons with disability than would have otherwise been possible. This increase will not fully make up for the project loss of Housing Credit production as a result of tax reform – an estimated 235,000 homes over ten years – but it is a very significant first step.
   - **A provision permanently authorizing income averaging in Housing Credit properties.** Income averaging will allow Housing Credit units to serve households earning up to 80 percent of area median income (AMI), offset by deeper targeting in other units to maintain average affordability in the development at 60 percent AMI. This offers a cost-neutral solution to better serve households across the income spectrum in buildings with mixed incomes.

   There is still more we can do to further strengthen the Housing Credit, including:

   - **Make the Housing Credit floor rate for credits used to finance acquisitions and housing bond-financed developments fixed at no less than 4 percent**
     When the Housing Credit was created, Congress set the credit rates (which determine how much Housing Credit equity can go into a particular project) at 9 percent for new construction and substantial rehabilitation and 4 percent for the acquisition of affordable housing and for multifamily Housing Bond-financed housing, which is how the "9 percent" and "4 percent" credit labels were derived. However, since then, Housing Credit rates have fluctuated according to a formula related to federal borrowing rates, which have sunk to historic lows, yielding much lower credit rates. As a result, there is 15 to 20 percent less Housing Credit equity available for any given affordable housing development today than

the original rates provided. Recognizing the impact of declining rates on the program, Congress permanently enacted a minimum 9 percent credit rate in 2015, but there is still no corresponding minimum 4 percent rate, which would provide more predictability and flexibility in Housing Credit financing, allowing developers to target more apartments to very- and extremely-low income households at rents they could afford and make more types of properties financially feasible, especially for affordable housing preservation. This tweak alone would generate approximately $500 million a year in new equity to build low-income housing in California.

- **Raise the cap on Housing Credit allocation authority by at least 50 percent**
  Though the need for Housing Credit-financed projects has long vastly exceeded its supply, Congress hasn't increased the Housing Credit authority in 16 years. To make a meaningful dent in the affordable housing supply gap, we urge Congress to increase the cap on the Housing Credit authority by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over a 10 year period. There is ample developer and investor appetite for Housing Credits to support such an increase. We also encourage Congress to give states the discretion to convert a portion of their private activity bond volume cap to Housing Credit authority. This would allow California greater flexibility in our use of limited state resources and could meaningfully supplement a cap increase.

2. **Protect and expand critical investments in affordable housing and community development programs in FY20**
   The THUD allocation uniquely promotes the well-being of our communities by providing essential seed capital and program funding that enables public and private partners to build critical transportation infrastructure, spur economic development in communities, and help more than 5 million seniors, people with disabilities, and other families afford stable housing. We urge Congress to reject the President's FY20 budget request, which would reduce housing benefits for the lowest-income people by slashing federal investments in affordable homes, increasing rents, and imposing harmful work requirements on America's struggling families, and instead expand these critical programs with the highest funding levels possible in FY19:
   - The **Community Development Block Grant (CDBG)** program is a flexible program that provides communities with resources to address a wide range of unique community development needs.
   - **HOME** provides formula grants to states and localities that communities use-often in partnership with local nonprofit groups-to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.
   - **Section 811** develops rental housing with the availability of supportive services for very low-income adults with disabilities and provides rent subsidies for the projects to help make them affordable.

- **Section 202** finances the construction, rehabilitation or acquisition of structures that will serve as supportive housing for very low-income elderly persons, including the frail elderly, and provides rent subsidies for the projects to help make them affordable.
- **Housing Choice Vouchers (Section 8)** allow very low-income families to choose and lease or purchase privately-owned rental housing.

3. **Strengthen Tax-Exempt Private Activity Bonds (PABs) Used for Housing**
   Recently, the Internal Revenue Service (IRS) has reinterpreted the statute governing PABs (26 U.S.C. 142) in a way that now precludes the use of these bonds for projects that serve veterans and other populations with special needs. This policy decision changes how the "General Public Use" criteria are applied to PABs and is a misinterpretation of the statute and congressional intent. To ensure the completion of ongoing veteran housing projects and to facilitate future development of much-needed affordable housing in our states, we strongly urge the IRS to consider expeditiously issuing a notice clarifying that affordable housing projects that comply with the LIHTC General Public Use criteria are also eligible for PABs. This misinterpretation prevents the use of CA's Veterans Housing and Homeless Prevention Program.

4. **Allow Ginnie Mae to Securitize Risk-Sharing Loans**
   Congress established the Federal Housing Agency (FHA) - Housing Finance Agency (HFA) Multifamily Risk-Sharing program in 1992 to increase and speed up FHA's multifamily mortgage production. The FHA-HFA Risk-Sharing program allows state HFAs that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans. FHA provides full insurance on the loans and HFAs agree to accept up to 50 percent of the risk of losses on them. The more risk HFAs assume, the more underwriting flexibility FHA permits them. In California, 2,000 affordable homes have been created and preserved with FFB Risk Sharing. If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points or 2 percent. This rate reduction would lower rents and potentially reduce the need for and cost of other federal housing subsidies.

5. **Ensure California's fair share of disaster recovery funding**
   As Congress prepares its next disaster relief package, it is critical that the State of California weigh in on what is most needed to assist the victims of the 2017 and 2018 wildfires regain stable housing. To this end, Congress should provide California fire victims both longer-term rental assistance and permanent replacement housing by funding: (1) the Disaster Housing Assistance Program (DHAP), (2) the Community Development Block Grant Disaster Recovery (CDBG- DR) program, (3) additional allocations of Low Income Housing Tax Credits (LIHTC-DR) for all Disaster regions as was done for GO Zone states after Hurricane Katrina when Congress passed The Gulf Opportunity Zone Act of 2005; (4) allow states to use federal recovery resources to create a modular housing demonstration program.

6. **Protect funding for the National Housing Trust Fund**

   The National Housing Trust Fund (NHTF) was established as part of the Housing and Economic Recovery Act of 2008 (HERA) and would provide grants to states to increase and preserve the supply of rental housing for extremely low- and very low-income families, including homeless families, and to increase homeownership for extremely low-income families and individuals. HERA requires Fannie Mae and Freddie Mac (the GSEs) to transfer a percentage of their new business to finance the Trust Fund. However, soon after the bill passed, the financial crisis hit, the GSEs were taken into conservatorship, and the Federal Housing Finance Agency suspended any payments to the Trust Fund. In December 2014, Director Watt lifted this suspension and, starting in 2016, will allocate 0.042% of the Enterprises' new business purchases to the NHTF and Capital Magnet Fund. On April 4, 2016, HUD announced that nearly $174 million will be made available for HTF recipients. Of this amount, the allocation to California is $23,228,115, which will be used to fund rental assistance tied to services dollars included in programs like the Whole Person Care pilot and the Health Home Program. These investments would decrease Medi-Cal costs resulting from dramatic improvements in clinical outcomes. CHC urges members to reject any legislative attempts to reduce or eliminate this funding.